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WORLD NEWS

Unionists hint at concession in Ulster deadlock

The outlines of a possible deal to end the impasse over paramilitary arms in Northern Ireland emerged when David Trimble, Ulster Unionist Party leader, and the province's first minister, hinted that his party might allow Sinn Féin to join a power sharing executive, provided the Irish Republican Army's political wing gave a "commitment" to disarm. **Page 18**

Brazil tightens up on budgets
President Fernando Henrique Cardoso of Brazil threw his political weight behind a proposal to enforce greater budgetary discipline at all levels of government, including state governors and city mayors. **Page 23; IMF praise, Page 8**

France signs Amsterdam treaty
The European Union's Amsterdam treaty is to come into force on May 1 after Paris notified EU authorities of French acceptance. France was the last country to ratify it. **Europe, Page 3**

Greece eager to meet euro terms
Greece is prepared to take exceptional measures, including indirect tax cuts, to reduce the average inflation rate this year to 2.5 per cent, the level required to qualify for euro membership in January 2001. **Europe, Page 3**

Deadlock on N Korea missile talks
US officials warned that a quick solution to curbing North Korea's production and export of missiles was not in sight, as the two nations failed to make progress in the latest round of talks in Pyongyang. **Asia-Pacific, Page 8**

Finnish premier to hold talks
Paavo Lipponen, the Finnish prime minister, is expected to begin intensive talks today with rival party leaders in an attempt to form a new government after last month's inconclusive general election. **Europe, Page 3**

Indian call for economic reforms
India's commerce minister says reform of labour laws, deregulation of protected small industries and other measures are needed to boost the country's flagging export performance. **Asia-Pacific, Page 8**

Mexican party chooses leader
José Antonio González Fernández, and his running mate, Dulce María Sauri, have secured the leadership of the ruling Institutional Revolutionary Party (PRI) in an uncontested election.

UK energy offer 'inadequate'
The British government's offer of a 50 per cent discount in its proposed energy tax is inadequate, the Confederation of British Industry, the UK's principal employers' organisation, said. **Britain, Page 12**

BUSINESS NEWS

Yahoo! poised for $4bn takeover of net radio company

Yahoo!, the leading Internet site, was last night expected to announce the acquisition of Broadcast.com, the Internet radio company, in a deal likely to be worth more than $4bn. **AOL worth $140bn, Page 19**

Ford of the US, the world's second largest automotive group, plans a new chief financial officer and head of marketing at Volvo Cars after its SKr50bn ($6bn) acquisition. **Companies and Markets, Page 19**

DaimlerChrysler, US-German automotive and aerospace group, strengthened its opposition to the link-up between British Aerospace and General Electric unit Marconi, saying it had "shattered dreams of a pan-European defence and aerospace company". **Companies and Markets, Page 19; Observer, Page 17**

Three more UK company chief executives have broken the £1m remuneration barrier, according to annual reports. They include Marjorie Scardino, chief executive of Pearson, which publishes the Financial Times. **Companies and Markets, Page 19**

ABN Amro Equities (UK) and Morgan Stanley Securities - part of Morgan Stanley Dean Witter of the US – were fined for "misconduct" by the London Stock Exchange. **Companies and Markets, Page 19**

Gecamines, African mining group, is investigating suspected unauthorised sales of its cobalt stocks by former agents in the wake of its exclusive marketing deal with MRG Cobalt Sales. **Page 30**

A panel set up by the UN Security Council to study the humanitarian situation in Iraq has recommended foreign companies are allowed to invest in Iraq's oil sector to raise the country's export capability, diplomats said. **International news, Page 4**

Aegon, Dutch insurance group, and AOT, leading marketmaker in Amsterdam stocks, disputed the reasons for a last-minute collapse in AOT's planned merger with Bank Labouchere, investment bank owned by Aegon. **Europe, Page 22**

Banque Nationale de Paris officially launched its hostile bids for rivals Société Générale and Paribas, pushing the takeover battle between France's three largest listed banks into a new phase. **Europe, Page 22**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 30

REFUGEES 'FORCED ON TRAIN AT GUNPOINT' AND TAKEN TO MACEDONIAN BORDER, CLAIMS UN AGENCY

Thousands flee Kosovo city

By Guy Dinmore in Belgrade

An ethnic Albanian woman from Kosovo makes her way to buses and trucks that will carry refugees to Tirana AP

Ethnic Albanians and Serbs were yesterday streaming out of Pristina, the main city in Kosovo, joining a mass of refugees fleeing the Serbian province for fear of attacks by government forces and Nato bombing raids.

The flight by car and train offered the first clear evidence that the mass exodus from Kosovo's rural heartlands has now spread to major urban centres where much of the province's original 1.8m population is concentrated.

The United Nations High Commission for Refugees said some 3,000 refugees arrived from Pristina by train at the border with Macedonia. They had been forced on board at gunpoint, the doors locked behind them.

Jamie Shea, the Nato spokesman, said the Yugoslavs were now driving people out of Pristina and Orahovac in the south-west of the province. Residents of the northern mining town of Mitrovica yesterday reported gunfire in the streets and said many inhabitants were fleeing.

Natasa Kandic, a Serb lawyer based in Belgrade, was one of the few brave enough to drive to Pristina, with the aim of evacuating the staff of the Humanitarian Law Centre, an independent human rights group that has monitored the year-old war in Kosovo.

"Most people in Pristina, Serbs and Albanians, are leaving. Soon it will be empty. The fear is deep," said Ms Kandic.

Pristina, the administrative centre of Kosovo, once had a population of some 200,000. The city's Serbs are fleeing north, deeper into Serbia, while the ethnic Albanian majority is heading south.

Ms Kandic said thousands of vehicles were backed up on the main road leading to Macedonia. She confirmed reports from ethnic Albanian refugees that police and troops had emptied houses of residents and moved in to seek refuge from Nato attacks on barracks and military installations.

"The Serbs are afraid of Nato and unknown groups who are looting. The Albanians fear the paramilitaries," the lawyer said on her return to Belgrade, 350km to the north.

But she also found some solidarity among the city's mixed ethnic groups, that also include Montenegrins, Moslem Slavs, Turks and Gypsies. Serbs and ethnic Albanians were sharing bomb shelters and had organised themselves together against marauding gangs.

Ms Kandic said she could get no information on five prominent Kosovo Albanians claimed by Nato and US officials to have been executed.

She also rebuffed the reports, however, that the house of Ibrahim Rugova, Kosovo's elected, pacifist, political leader, had been burnt down.

Meanwhile, Turkey's foreign ministry yesterday gave permission for eight Russian warships to move through the Bosporus strait, Russia's response to Nato's airstrikes.

Starvation threat, Page 2
The US debate, Page 17

Prodi wants role for EU in Balkans

By Lionel Barber, James Blitz and Peter Norman in Rome

Romano Prodi, president-designate of the European Commission, yesterday called for the European Union to play a leading role in a regional settlement for the Balkans after the end of the war with Yugoslavia.

In an interview with the Financial Times, Mr Prodi said the EU should offer a "partnership" with states in the region, to provide a long-term political solution to ethnic rivalry in the Balkans.

"It will be difficult to solve the Balkan problem in the long run if Europe does not supply a common roof for the different groups that live there," he said. "If you want a solution you have to give hope. You need a conference on the Balkans."

Mr Prodi made clear he would not take sides in the debate in Italy over Nato's military onslaught against President Slobodan Milosevic, whose paramilitaries and army are driving thousands of ethnic Albanians out of Kosovo.

But he insisted that European leaders had to think beyond the conflict, just as the allies at the height of the second world war planned the post-war reconstruction of Europe and the world's financial system.

He stressed that Europe had to answer the charge that it had failed to take responsibility for the crisis on its doorstep. One of his priorities of his forthcoming term as president of the European Commission, the EU's Brussels-based executive, would be a new Balkan initiative.

EU leaders unanimously nominated Mr Prodi, a former prime minister of Italy, as president of the Commission at the Berlin summit last week. But it remains unclear when he will start serving his five-and-a-half year term.

In the FT interview, Mr Prodi expressed his concern about the war and Italian public opinion which is deeply divided over Nato's intervention.

"I am so worried about the war. We are so close," he said, noting that several Italian airports, including Bari and Trieste, had been closed. "There is increasing tension. Everybody is asking 'what next?'."

Looking ahead to a future peace, Mr Prodi said the EU should export its own political "model" of democracy, ethnic diversity, and shared common goals to the Balkans.

Though EU membership for the Balkan states was not on the horizon, countries could form partnerships among themselves and with the Union, provided they were democracies.

"We have to put them in an area of development with some kind of autonomy," he said. Citing the example of Luxembourg in the EU, he said that even small political units could co-exist under the "European roof" in the Balkans.

Newsprint companies face price fixing inquiry

By Emma Tucker in Brussels

The European Commission has opened a formal investigation into allegations of a price fixing and market sharing cartel operated by "a large part" of the European newsprint and magazine paper from 1989 to 1995.

Brussels believes it has amassed enough evidence to show that companies in Finland, Sweden, Austria, Germany, the UK, Italy and France were involved in price fixing, setting quotas at a national level and artificially allocating business among themselves. It has issued them a statement of objections.

If found guilty, the companies could be fined up to 10 per cent of their turnover. The fines would reflect the duration and gravity of the offences.

Critical factors such as the fact that some small companies were forced out of business because of excessive newsprint costs would be taken into account. Victims could sue newsprint producers for damages.

Evidence of the anti-competitive behaviour was picked up four years ago when the Commission staged dawn raids at 21 companies and later at two newspaper associations – the German Paper Manufacturers Association and the German Paper Importers Association.

The raids were triggered by complaints from publishers that believed newsprint prices, which make up 25 per cent of magazine costs, were not being set under normal market practices.

Criticism was particularly fierce in the UK, where some magazines were forced to reduce their size following price rises of up to 15 per cent in the mid-1990s.

According to EU officials the increases are believed to be the result of seven alleged meetings held between 1989 and 1995.

Names of the companies allegedly involved have not been divulged. However, Austria's two main producers – Steyrermühl and Leykam – are understood to be under investigation.

UPM-Kymmene and Stora Enso, Finnish and Swedish groups who control about half of European magazine paper, are also understood to be involved. Stora Enso said it was co-operating with the inquiry.

Mitsubishi Electric launches shake-up

By Paul Abrahams in Tokyo

Mitsubishi Electric, the Japanese industrial electronics conglomerate, yesterday unveiled a sweeping restructuring of its portfolio of businesses.

The measures are among the most ambitious yet in the series of rationalisation programmes announced in recent months by Japanese industrial companies. But the moves have also raised fears about rising unemployment, which reached a record 4.6 per cent during February.

Ichiro Taniguchi, Mitsubishi Electric president, said the rationalisation was based on the premise that difficult market conditions would persist. The group needed to create a structure that was not dependent on volume increases, he explained.

Mr Taniguchi said 14,500 jobs would be lost, nearly 10 per cent of the workforce, including 8,400 in Japan and 6,100 overseas. He refused to specify where the job losses would occur, but said most of the overseas restructuring was complete. The company has already closed a television factory in Scotland and a semiconductor factory in Germany.

About half the job losses would be achieved by natural attrition, with the rest through cutting recruitment, shifting people to other industries and disposing of individual businesses.

Fixed costs would be slashed by more than Y100bn ($830m) and variable costs by Y50bn. Capital investment would be reduced about 20 per cent and research and development by 10 per cent.

The collapse in consumer confidence and cuts in corporate capital spending in Japan have hit many of Mitsubishi Electric's core businesses, including factory automation, elevators and escalators, air conditioners, white goods and consumer electronics. The group is expected to post a net loss of Y40bn for the financial year that ended yesterday.

About 43 per cent of the group's operations by turnover would be targeted for expansion, 36 per cent would need to improve profitability and 21 per cent would no longer receive investment. "Those deemed difficult or impossible to return to profitability will be spun off, sold or shut down by March 2001," Mr Taniguchi warned.

By March 2002, Mr Taniguchi said he intended profits before tax to reach Y120bn on sales of Y4,000bn. He set a return on equity target of over 10 per cent.

Heads roll, Page 24

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	9,892.17	(-21.09)
NASDAQ Composite	2,495.39	(+15.10)
Europe and Far East		
CAC40	4,197.88	(+55.90)
DAX	4,884.20	(+27.36)
FTSE 100	6,295.3	(+31.2)
FTSE Eurotop 300	1,258.89	(+8.18)
Nikkei	15,836.59	(-22.53)
US LUNCHTIME RATES		
Federal Funds	5.125%	
3-mth Treas Bills: Yld	4.49%	
Long Bond	94$\frac{3}{32}$	
Yield	5.65%	
OTHER RATES		
UK: 3-mo Interbank	5$\frac{5}{16}$%	(same)
UK: 10 yr Gilt	110.65	(110.69)
Euro Euribor	2.971	(2.981)
Germany: 10 yr Bund	97.96	(97.98)
Japan: 10 yr JGB	101.621	(101.601)
NORTH SEA OIL (Argus)		
Brent Dated	$14.97	(14.48)

GOLD		
New York: Comex		
(Apr)	$279.2	(280.3)
London:		
	$279.85	(same)
DOLLAR		
New York: lunchtime		
£	1.6146	
€	0.9256	
SFr	1.4757	
Y	118.45	
London:		
£	1.6143	(1.6137)
€	0.9263	(0.9292)
SFr	1.4801	(1.4843)
Y	118.43	(120.44)
Tokyo close		Y 119.9
EURO (London)		
$	1.0796	(1.0762)
£	0.6687	(0.6669)
Y	127.857	(129.618)
SFr	1.5979	(1.5974)

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Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	Dkr16.00	Latvia	Ls1.65	South Africa	R16
Estonia	EKr34.00	Lithuania	Lt21.00	Spain	Pta325(€1.95)
Finland	FmK13.00(€2.19)	Lebanon	LBP3,500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£90.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft350	Norway	NKr19.00	UAE	Dh13.00

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WORLD NEWS
EUROPE

KOSOVO CRISIS NATO WARNS THAT NO FACILITY INVOLVED IN ATTACKS ON ETHNIC ALBANIANS IS SAFE ■ FOOD CRISIS THREAT IN PROVINCE

Range of Yugoslav targets widened

By Neil Buckley in Brussels and Kevin Done in London

Nato warned yesterday that no Yugoslav facility that "planned, conceived, directed or carried out" attacks against Kosovar Albanians would be safe from its bombing campaign, after it widened the scope of air operations.

The warning was taken as a signal that targets in central Belgrade, including government buildings such as the defence or interior ministries, *could now be hit.*

The decision to broaden the range of targets was *taken by Nato envoys in* Brussels on Tuesday night, after Nato leaders rejected a peace offer from Slobodan Milosevic, Yugoslav president, as inadequate.

Asked if central Belgrade could be targeted, Jamie Shea, the Nato spokesman, replied: "It is quite clear that no facility, no unit, that is currently being used to plan, conceive, direct or carry out the Yugoslav campaign against the Kosovars is *going to be a sanctuary."*

The build-up of forces in the region was intensified as Russia, *which fiercely* opposes the Nato bombing campaign, announced it was sending a reconnaissance ship to the Mediterranean Sea to gather information about the Yugoslav conflict, and was considering dispatching six more ships.

Mr Shea said Nato had "noted" the movement of Russian naval ships from Sevastopol into the Adriatic, but had been reassured by President Boris Yeltsin's "firm" statement that Russia had no intention of getting involved in the conflict.

Nato yesterday accused the Yugoslav authorities of trying to erase the identities of ethnic Albanians being driven out of Kosovo by destroying their public records and archives.

It said the Yugoslavs were destroying the property deeds, birth certificates, marriage licences and financial and other records of Kosovar Albanians now *being forced to flee their* homes in their hundreds of thousands.

European monitors said the number of refugees *crossing into Albania was* nearing 100,000 and the influx showed *no signs of* letting up. The vast majority of refugees were crossing from Kosovo into north-east Albania at the Morina border post, near Kukes.

The European Commission said yesterday foreign ministers from Albania, Bosnia, Macedonia, Hungary and Slovenia would meet EU representatives in Bonn today to discuss the refugee crisis.

Air Commodore David Wilby, of Nato military command, said bombing efforts continued to be hampered by poor weather, but a forecast *improvement in the weather* could allow the alliance to *increase the "momentum* and flexibility" of attacks.

Some 30 Yugoslav aircraft had now been destroyed or severely damaged by Nato attacks, he said.

● Nato admitted yesterday that Yugoslav hackers had broken into its internet home page and had jammed its e-mail system with 2,000 messages a day.

YUGOSLAV OVERTURE WEST SAYS PLAN DOES NOT GO FAR ENOUGH

Milosevic peace offer angers Nato

By David Buchan, Diplomatic Editor

In persuading Slobodan Milosevic, Yugoslav president, to offer to pull some troops out of Kosovo in exchange for Nato calling off its warplanes, Igor Ivanov, the Russian foreign minister, yesterday claimed Moscow had made "an important contribution".

But Nato leaders retorted that the result of six hours of talks by Yevgeny Primakov, Russian prime minister, with the Yugoslav leader was nothing of the kind. George Robertson, the UK defence secretary, summed up Mr Milosevic's message as: "Nato stops the bombing, he only slows down the killing."

Nato was mainly incensed at Mr Milosevic's failure to offer the ceasefire on the part of his own forces, to which he is notionally committed by his October 1998 agreement with Richard Holbrooke, the US envoy. "It's a complete brush-off," said one UK official yesterday. "He has not understood that Nato is serious – he's still hoping the alliance will fall apart." But in other respects, the Yugoslav leader's offer also failed *to satisfy the* allies.

His troop reduction proposal is vaguely worded, to *the effect that "after the cessation* of the bombing, [the Yugoslav *leadership*] will begin decreasing the presence of part of its forces that are in Kosovo for the purpose of defence of the country". The last part of this phrase could imply that the reduction might only apply to the regular army, not to the MUP special police.

Belgrade's failure to specify the scale and timing of any reduction in the 40,000-strong army and police forces it has in and around Kosovo contrasts starkly with the detail in the Rambouillet plan drafted by international mediators and eventually signed by ethnic Albanian leaders on March 12.

According to this the MUP were, on the day of a peace settlement being signed (or K-day), to be reduced to their level before fighting broke out a year ago. Within five days, K+5, they were to return to barracks; by K+20 all their heavy arms were to leave Kosovo; by K+60 50 per cent of the remaining MUP were to be removed; by K+120 the number of MUP would be 2,500, who would hand regular policing over to newly formed cantonment police, reflecting the local population in communes. Within a year, K+365, all MUP would disappear from Kosovo.

The Rambouillet timetable *for army reductions* was only slightly less detailed. By K+5 *all soldiers would be* in barracks except for 1,500 *left to guard Kosovo's international* borders. By K+90 50 per cent of all army forces would leave, plus all offensive equipment (tanks, artillery), and within six months, K+180, only border troops would remain.

In exchange for these reductions the Rambouillet plan would disarm the Kosovo Liberation Army (KLA), a task to be overseen by the Nato-led peacekeeping force, which the west proposed and Belgrade refused. Mr Milosevic insisted this week on "the complete cessation of Nato's support for the [KLA] separatists".

In fact, western mediators went to considerable lengths to persuade the KLA to accept interim autonomy within Yugoslavia. They refused to include in the Rambouillet plan any mention of a referendum on independence, although the compromise language about "the will of the people" being one determinant of Kosovo's final status was an attempt to leave that option open.

After meeting a KLA delegation in London this week, Robin Cook, the UK foreign secretary, said that while Nato was "not neutral" towards the KLA – particularly after the past week's Serb atrocity allegations and *Albanian refugee exodus* – the alliance still refused to *endorse Kosovo independence* or to arm the KLA to *achieve that.*

The issue of how Kosovo's *final status should be determined* was by far the most sensitive matter for Serb negotiators in the Rambouillet talks. But they also disputed the idea of Kosovo having a president and a constitution, arguing these conferred statehood on the province. Mr Milosevic's statement on Tuesday was too brief to give any indication of a shift on these secondary matters.

Nato's final objection to Mr Milosevic's overture was over refugees. The Yugoslav leader said "peace-loving" people could return, a phrase that leaves ample room for interpretation. A more serious hindrance to return is the way in which Yugoslav border guards have been taking passports and identity *cards off* refugees as they cross over into Albania and Macedonia. If refugees do get back, they *could have difficulty re-establishing* title to their property. *Serb forces are reported* to have burnt records and archives in local communes.

What Mr Primakov's abortive *peace mission has* revealed, however, is that *while a channel for diplomacy* remains open through *Moscow, Nato and Belgrade* have hardened their positions *since Nato air strikes* began and the rift between them *has widened to a* chasm.

A Thunderbolt ground crew member checking an A-10 after it was flown to Yugoslavia Reuters

Diplomacy at odds

Nato demands

- Serb ceasefire as promised in Oct. 1998
- Withdrawal of Serb forces from Kosovo, at least to levels of March 1998, if not to those of the Rambouillet timetable, which would remove all special police after a year and all army after six months, except for 1,500 border troops.
- Acceptance of the Rambouillet political plan to give Kosovo *substantial autonomy within Yugoslavia.*
- Acceptance of an international military force, not least now to guarantee the safe return of refugees.

Slobodan Milosevic's offer

Nato must:

- *Cease air strikes*
- End 'any kind of support to armed Albanian separatists'. After which he would:
- Reduce Yugoslav military presence in Kosovo
- Enter talks to secure the interests of all ethnic and religious groups in Kosovo
- Allow 'peace loving' refugees to return

WORLD FOOD PROGRAMME INTERNATIONAL RELIEF EFFORT URGED

Starvation threat grows

By Kevin Done

People are expected to be starving in Kosovo within 10 to 14 days unless an international relief effort can be mounted, the World Food Programme (WFP), the food aid organisation of the United Nations, warned yesterday.

Catherine Bertini, WFP executive director, said that, as a result of the conflict, the internal food distribution system in Kosovo had broken down. The food crisis inside Kosovo was expected to worsen, and it threatened to become a long-term problem as no harvest was expected this year.

The WFP said a resolution of the conflict remained only a distant prospect, with fighting likely to continue in 1999. Any peace deal was unlikely to address the core problem. Before the escalation of the fighting and the start of Nato bombing, the WFP had been attempting to feed up to 420,000 people in Kosovo who had been forced from their homes, said Ms Bertini. That amounts to almost a quarter of the population.

Since WFP staff and other international aid workers were withdrawn from Kosovo, their warehouses in the province had been looted and tonnes of food lost.

Other ways of getting food into Kosovo were being investigated but air drops had been ruled out, both because it was impossible at the moment to locate people forced from their homes and because the low-flying aircraft would be targets for Serb guns. No reports of starvation in Kosovo had been received yet, she said.

Ms Bertini said the WFP remained confident it could feed the tens of thousands of refugees who had flooded across the Kosovo borders into neighbouring Albania, Montenegro and Macedonia, but she appealed to the international community to supply more aid.

As the humanitarian crisis worsened, aid agencies estimated that around 100,000 ethnic Albanians had fled Kosovo in the last few days, with around 70,000 pouring into Albania, Europe's poorest country, 20,000 into Macedonia and 10,000 into Montenegro. The WFP said that a further 30,000-80,000 refugees were expected to flee to Albania.

"This is just the beginning of a potential humanitarian catastrophe and we are gearing up to prepare for the worst," said Ms Bertini.

MILITARY TACTICS BUDAPEST EMBARRASSED OVER 'ATTACK'

Confusion in Hungary

By Robert Wright in Budapest

The Hungarian government has found itself embroiled in an embarrassing dispute over the Nato air strikes in Yugoslavia after its defence minister was quoted as saying any ground attack on Kosovo would be launched from Macedonia, not Hungary.

The remarks came around the same time that George Robertson, the UK defence secretary, was assuring reporters that a ground operation in Kosovo was out of the question because of the number of troops required.

János Szabó, the defence minister, was quoted on television on Monday as saying that any ground troop movement into Kosovo would come from Macedonia, not Hungary. Defence ministry sources suggested the reporter had been confused, but the situation was exacerbated on Tuesday when István Simicskó, head of the foreign affairs section of the governing Fidesz-Hungarian Civic party, defended Mr Szabó's remarks, saying nobody could believe the situation would be resolved by air strikes alone.

That in turn has prompted Viktor Orbán, prime minister, to attempt clarification. He told a press conference the third stage of attacks would not include ground attacks. He also pointed out that the plans for the third phase were secret, so it was hardly surprising if different ideas about what it would include were being circulated.

Nato officials have been quoted as saying the affair is a result of a "communications problem".

Hungary has found itself embroiled in the problems of neighbouring Yugoslavia almost immediately after becoming a Nato member on March 12. One western diplomat described government officials and ministers as "shell shocked" at the baptism of fire they were receiving into Nato membership.

In that light the apparent confusion in the government was hardly surprising. The air strikes have caused concern in Hungary because the 340,000 ethnic Hungarians in Serbia's northern Vojvodina province are thought vulnerable to similar Serbian attacks to those being mounted on the ethnic Albanians in Kosovo.

Hungary has had to formulate a policy of allowing Nato access to its air space for operations, but of not becoming involved itself.

GERMAN PACIFISM LEADERS AGREE MEETING TO DISCUSS OPPOSITION TO AIR STRIKES

Greens face prospect of defections

By Haig Simonian in Berlin

Germany's Green party faced growing defections from grassroots members yesterday due to opposition to its support for the government's military involvement in Yugoslavia.

The growing rift prompted party leaders to agree to a special meeting with regional party representatives next month to discuss policy on Kosovo, following this week's stepping up of Nato air strikes. Party organisations in four *länder* had called for a full party conference.

Hans-Christian Ströbele, a Green member of parliament, called on the "Red-Green" coalition government of Social Democrats and environmentalist Greens to dissociate itself from the fighting. "There's endless unease in the whole party", he said.

The remarks by Mr Ströbele, a leading Green pacifist, followed comments this week by Antje Radcke, the party's co-leader, that Nato should halt its military strikes and return to the negotiating table.

Many leading Greens are worried a prolonged or intensified conflict in Yugoslavia could split the party. The Greens' origins lie in the environmentalist and pacifist protest movements of the 1970s, and many members remain commited to both causes. Others, however, *have pointed out* the Greens' origins lie as much in defending human rights as in pacifism.

Party leaders backing the Greens' support for German military involvement have tried to defuse the crisis by arguing that participating in government gives the Greens much greater influence on policy than remaining in opposition. Ms Radcke said the Greens would remain part of the government so long as they could influence policy to end the conflict.

The pacifists' anger has focused on Joschka Fischer, a leading member of the Greens' "realist" wing and now foreign minister. Mr Fischer, vilified by *some* party colleagues as a "warmonger", warned that "any weakness in Nato would strengthen Milosevic".

Helmut Lippelt, the Greens' foreign policy spokesman, said this week that parliament would have to face approving the deployment of ground troops if Nato thought this was necessary to stop ethnic cleansing in Kosovo.

Green members of the cabinet, such as Mr Fischer, are likely to face a grilling at the special party meeting. Uli Cremer, a prominent pacifist in the party, said ministers would not be asked to resign but he hoped they would alter their positions.

In spite of their differences, leading Greens from all sides endeavoured to dissuade members from leaving.

Antje Radcke: urged talks

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NEWS DIGEST

FRENCH UNEMPLOYMENT

Downward trend in jobless suffers setback

The *steady downward* trend in French unemployment was jolted in February by a 0.3 per cent increase against the *previous month. Figures released yesterday by Insee, the* official statistics institute, showed the number of people seeking work rose *7,900 in February to 2.9m. It was only* the second time in 18 months that the jobless total had risen.

The employment ministry sought to play down the significance of this change, calling it "a slight slowdown in the generalised reduction of unemployment". In 18 months, the unemployment rate has fallen a full percentage point and 270,000 jobs are expected to be created this year.

But analysts said the February data pointed to a weakening of the job market in industry, which was most affected by the emerging market crisis. The main explanation for the February figures was the ending of a number of temporary job contracts. **Robert Graham, Paris**

GERMAN TRANSPORT

Bonn approves new airport

The German cabinet yesterday gave final approval for the construction of a new international airport to serve Berlin and the Brandenburg region. The project, based on the existing airfield at Schönefeld, one of the city's three airports at present, should be ready by 2007. The airport is expected to handle 17m passengers in its first year, rising to 20m.

In a significant break with practice, the new DM6bn (€3bn, $3.2bn) Berlin-Brandenburg airport is being financed as a private venture, in which the Hochtief building group will take a large stake. Some bankers believe the project may encourage other local authorities to consider partly or wholly privatising their airports to raise money and help fund future investment.

The prospect of such deals has attracted keen interest from leading international banks and potential investors. **Haig Simonian, Berlin**

CREDIT LYONNAIS

Italian financier sentenced

Giancarlo Parretti, an Italian financier whose Hollywood dealings played a part in the downfall of France's Crédit Lyonnais bank, was sentenced *in absentia* to four years in jail by a Paris court yesterday.

The court found Mr Parretti, already convicted and fined $1.5bn by a California court in 1997 while on the run, guilty of fraud after buying Hollywood's Metro-Goldwyn-Mayer film studios with loans from the French state bank 10 years ago.

Crédit Lyonnais, about to be privatised after recovering from ruinous investments, including the loans on which Mr Parretti ended up defaulting, has been pursuing the Italian businessman since the early 1990s.

The court also renewed an arrest warrant issued in 1995 and imposed a fine of FFr1m (€152,000, $160,000) on Mr Parretti. Three former business partners, present for the ruling, were fined smaller sums and got suspended prison sentences. **Reuters, Paris**

SWISS GOLD RESERVES

Bank nearly doubles loans

The Swiss National Bank, which controls the world's third biggest gold reserves, nearly doubled the amount of gold *it lent to banks and brokerage houses in 1998.*

At the end of 1998 it had outstanding gold loans of 187 *tonnes compared with 99 tonnes at the end of 1997, its* first year of gold lending. The sharp increase in the SNB's gold lending operations is a further sign of changing Swiss attitudes towards gold. Until very recently Switzerland opposed the sale of *gold by central banks and the* International Monetary Fund.

However, it has dropped its opposition to IMF gold sales and its electorate will vote on April 18 on a new federal constitution that will sever the Swiss franc's tie to gold. If passed this will clear the way for the start of Swiss gold sales next year which could *eventually lead to the disposal* of up to 1,400 tonnes of gold, or half the country's gold reserves. The SNB's gold lending transactions are part of an effort to use its gold reserves more efficiently. The SNB earned SFr42.6m ($28.7m) from gold lending in 1998 compared with SFr2.6m in 1997. **William Hall, Zurich**

DEFENCE MINISTRY REPORT

Polish military lacks supplies

Poland's deputy defence minister described as "shocking" a confidential report criticising the Polish military for lacking reserve ammunition and spare parts and attributed it to poor budgeting, a spokesman said yesterday.

Excerpts of the report published in the Gazeta Wyborcza newspaper, said military supplies covered only 30 per cent of the Polish troops' needs, which forced them to use wartime reserves for current training.

The shortages result from the "the practice of using reserves by some army units when they lack funds for current training", said Romuald Szeremietiew, deputy defence minister.

The report, prepared by the defence ministry, said 45,558 rounds of ammunition for heavy artillery used by the Polish Army would last only four days of combat. Nato, which Poland, the Czech Republic and Hungary joined on March 12, *requires 30 days of military reserves,* Gazeta said. **AP, Warsaw**

KOSOVO AID

Hague seeks help for refugees

William Hague, the UK Conservative party leader, yesterday urged the government to match any funds raised by charities to ease the plight of the thousands of Kosovo Albanians seeking refuge in Macedonia, Albania and Montenegro.

In a letter to the prime minister, Mr Hague welcomed the £10m ($16m) of additional aid already promised by the government but said it had "a responsibility to do more".

Tony Blair, UK prime minister, speaking in parliament, promised to consider the request, which is one of the earliest manifestations of Mr Hague's version of "Caring Conservatism". Mr Hague has been trying to soften the Tories' image following his meeting with Texan governor, George W *Bush, inventor of "Caring Conservatism" as a concept.*

Mr Hague has also attacked the government for failing *to make greater preparations for the refugee crisis before* the start of the Serbian bombing campaign. However, Clare Short, *the overseas development minister, said it* would have been "an appalling act of complicity in ethnic cleansing" for the government to create camps prior to the Albanian flight. She assured MPs the government would allocate furjther funds "over the coming days as needs become clear". **Robert Peston, London**

هكذا من الاصل

Greece prepared to take a tough line on inflation

By Kerin Hope in Athens

Greece is prepared to take exceptional measures to reduce the average inflation rate this year to 2.5 per cent, the level required to qualify for euro membership in January 2001, a senior government official said yesterday.

Rising oil prices on international markets and sharp price increases by Greek manufacturers and importers are expected to raise inflationary pressure in the second half of the year.

Despite falling interest rates and low growth in labour costs, "manufacturers and traders have raised profit margins significantly to exploit a surge in demand," the official said.

"We're ready to take additional measures, including extra [indirect] tax cuts if necessary, to make sure of hitting the convergence target on inflation," the official added.

Such measures would include deep cuts in public investment in the final quarter. Cuts last year in fuel taxes, value-added tax on electricity and the special consumption tax on new car purchases have reduced the yearly inflation rate by about 1 percentage point.

Greece aims this year to fulfil all the Maastricht convergence targets, opening the way for the European Commission to approve its entry to the euro-zone early next year. But reducing inflation to within 1.5 percentage points of the average in the EU's three lowest-inflation countries is the hardest to achieve.

This week, the European Commission endorsed the government's forecast of an average inflation rate this year of 2.5 per cent. Year-on-year inflation is projected to fall from 3.7 per cent in February to 1.9 per cent in December.

According to the EU's harmonised inflation rate, which excludes education and some health costs, Greece's average inflation rate would fall to 2.1 per cent compared with a projected 0.6 per cent average for Denmark, France and Sweden.

Greece's budget deficit last year fell to 2.4 per cent of gross domestic product, below the 3 per cent of GDP convergence ceiling. The public debt, while still well outside the 60 per cent of GDP Maastricht guideline, shrank by 4 percentage points to 105 per cent of GDP.

This level of public debt is lower than that of Italy and Belgium, both euro-zone members. It is projected to decline by another 3 percentage points of GDP this year, meeting the Maastricht requirement of a steadily declining trend.

Finnish party chiefs meet today to hammer out new government

By Tim Burt in Stockholm

Paavo Lipponen, the Finnish prime minister, is today expected to begin intensive talks with rival party leaders in an attempt to form a new government after last month's inconclusive general election.

The move follows Mr Lipponen's appointment yesterday as Finland's caretaker prime minister by Martti Ahtisaari, the country's president.

Mr Ahtisaari asked him to continue in office until a workable administration could be formed from the nine parties that won seats in the 200-seat parliament.

Although Mr Lipponen's Social Democratic party (SDP) emerged as the single largest parliamentary group with 51 seats following the election, its power base was badly weakened by losing 12 seats to the rival Centre and Conservative parties.

If the prime minister fails to reach an accommodation with the Conservative party, one of its partners in the previous five-party coalition, it could clear the way for a new government led by Sauli Niinistö, the Conservative party leader.

Government officials said the negotiations could last at least a week before a new government took shape.

Mr Niinistö, who won more constituency votes than any other party leader, is expected to call on the SDP to drop plans for a new tax on dividends and increased corporation tax as the price for his party's support.

But such demands could provoke strong opposition from the Leftist Alliance and Green parties, which took part in the previous "rainbow coalition". The Greens and the Conservatives are also divided on the need for a fifth nuclear power station in Finland.

"It is the most open race we have seen in decades. The small parties could prove crucial," said one civil servant, who declined to be named.

Mr Lipponen would find it hard to persuade the Centre party, led by former prime minister Esko Aho, to join a grand coalition after accusing it of adopting "anti-European policies" and making uncosted spending pledges.

The Finnish president has not expressed any opinion on the complexion of a new government.

"It is up to the parties to find consensus on a programme," he said.

IMF is more socialist than we are, says Maslyukov

By John Thornhill in Moscow

Yuri Maslyukov: his communist background will assure him a vital role in the battle with parliament AP

Yuri Maslyukov, Russia's most senior economics minister who once ran Gosplan, the Soviet state planning agency, makes a startling observation about the International Monetary Fund.

"The IMF is more socialist than we are," he chuckles.

Mr Maslyukov's comments are prompted by the IMF's insistence the government wring more taxes out of Russia's capitalist monopolies to increase pensions and wages of state employees.

The IMF fears the government might otherwise come under unsustainable pressure to print money, given the forecast 40 per cent fall in the population's real incomes this year.

In earlier discussions with the IMF, Mr Maslyukov had argued for a cut in corporate taxes to stimulate investment in the "real economy". But he says he has since been persuaded of the justice of the IMF's arguments.

"We need to increase the income part of the budget by Rbs10bn ($374.5m)," he says. "The extra burden should be placed on our natural monopolies, that is Gazprom, UES, the transport and oil companies."

Only if the government can show its seriousness about raising more taxes will the IMF conclude its agreement to provide Russia with extra funds this year. Michel Camdessus, IMF managing director, this week agreed an outline deal, but details about the new loans have to be hammered out by an IMF mission in Moscow next week.

But the current government, like all previous post-Soviet governments, is more beholden to Russia's corporate behemoths than to the voiceless poor. The proposed new IMF programme will require new tax laws and budget amendments to be adopted by the Duma (parliament), which seems in no mood to accept a western economic diktat after Nato's bombing of Yugoslavia.

In the battle with parliament, Mr Maslyukov will play a vital role. As an ex-Communist party MP, he speaks the same language as his former colleagues, who form the biggest parliamentary faction.

For this reason, Yevgeny Primakov, the prime minister, has said he will not sacrifice his first deputy prime minister despite almost daily calls for his resignation.

Mr Maslyukov's many critics depict him as a Communist dinosaur who does not understand how a modern market economy works. The former state planner still believes the government should play a central role in running the economy.

He believes a state development bank, now being formed, will become a "key instrument" for increasing industrial production.

He also warns that more aggressive bankruptcy procedures being advocated by the World Bank could create more problems.

As President Boris Yeltsin observed this week, Russia has created a "freakish" economic model, half-way between the plan and the market. Who better to understand this world than a former Gosplan man who believes the IMF to be too socialist?

Amsterdam treaty will come into force in May

By Michael Smith in Brussels

The European Union's Amsterdam treaty is to come into force on May 1 after Paris notified EU authorities of French acceptance. France was the last country to ratify.

The treaty confirms the growing authority of the European Parliament by giving it the power to veto the appointment of a Commission president and providing it with the right to block or amend legislation in a range of areas. It also introduces an "area of freedom, security and justice", allowing for the progressive introduction of measures to ensure the free movement of people and establishing common rules on external border controls, asylum and immigration.

The May 1 implementation date has a limited effect on the appointment of Romano Prodi, nominated by EU heads of government as Commission president in the wake of the Commission's resignation this month after damning criticism of its management.

Parliament intends to vote on Mr Prodi's appointment in April, before Amsterdam comes into effect. But a rejection of him then, considered highly unlikely, would force a rethink by government heads anyway.

Prime ministers do not want to provoke parliament and will, in any case, need parliament's approval later this year for Mr Prodi to continue in office from next January.

Separately, government heads and the parliament appear divided on when the new Commission to serve with Mr Prodi should be appointed.

José Maria Gil-Robles, parliament president, has said he wants a new Commission to be approved by this parliament, whose term of office finishes in June when new elections are held.

However, most heads of government would prefer the new parliament to approve the replacement Commission in July.

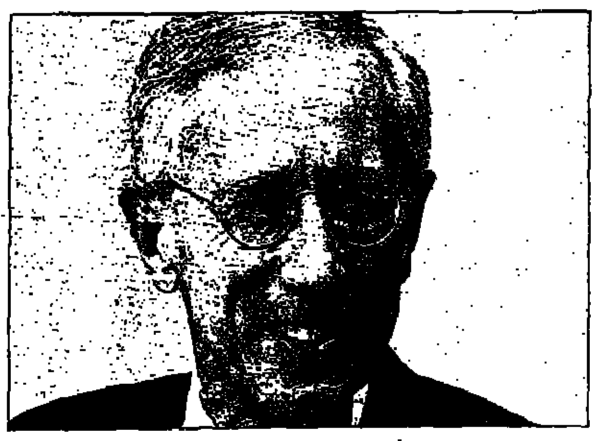
ECONOMIC ASSESSMENTS FISCHER SAYS BRAZIL MEETING TARGETS WHILE RUSSIA NEEDS REFORMS

IMF praises Brazil, warns Russia

By Richard Wolffe in Washington

The International Monetary Fund said yesterday the Brazilian economy was moving toward stability, but warned that the Russian government needed to introduce a wide range of politically sensitive reforms before a new loan package would be approved.

Stanley Fischer, acting managing director of the IMF, said Brazil had met its fiscal targets for the last quarter of 1998 and appeared to be "better than on track" in the first quarter of this year.



Fischer: Brazil's inflation better than expected

In contrast, Mr Fischer warned that Russia still needed to complete a wide-ranging series of negotiations before the IMF would approve any new loans to prevent the threat of national bankruptcy.

Mr Fischer also delivered a downbeat estimate for the Japanese economy, saying he expected "even less growth" in 1999 than last year, and that "it would certainly be no more growth than we expected last time." In an interim report last December, the IMF said it expected Japanese growth to decline 0.5 per cent this year after a 2.8 per cent fall last year.

In Brazil, inflation rates were "better than expected", calming fears that the devaluation of the Real in January would trigger a revival of inflation through indexation mechanisms.

"There is an intention to sustain a strong monetary policy until they get inflation under control and the early indications are that inflation is coming in at levels which are very consistent that this devaluation is feeding through into price levels, but not into ongoing inflation," Mr Fischer said at a meeting with reporters.

"If the inflationary performance continues to remain good, it is reasonable to expect nominal interest rates to decline. On the trajectory they are on now, the issues of unstable debt dynamics that concerned the markets for so long should not arise."

Mr Fischer said the Brazilian authorities "would not hold off longer than they need to" before cutting interest rates.

Mr Fischer insisted that the Fund had agreed "neither dates nor amounts" with the Russian government, despite reports of a \$4.8bn package of loans agreed in Moscow this week.

"There is a lot of detailed work to be done and there are undoubtedly prior actions to be taken," he said. "We have agreed on a framework, we have not agreed on measures."

He added that the IMF had relaxed its negotiating stance on a Russian primary budget surplus (before interest rates) of 3.5 per cent, because it would have resulted in "unrealistically large cuts in pensions" and civil service salaries.

UN urged to allow foreign investment in Iraqi oil

By Roula Khalaf, Middle East Correspondent, in London

A panel set up by the United Nations Security Council to study the humanitarian situation in Iraq has recommended that foreign companies be allowed to invest in Iraq's oil sector to raise the country's export capability, diplomats said yesterday.

The panel, made up of four senior UN officials, was one of three established by the Council with the aim of formulating a new policy on Iraq, following last December's US and British air raids and the policy divisions among the five permanent Council members.

It found that Iraq had moved from relative affluence to poverty since sanctions were imposed. Literacy rates had dropped from 75 per cent eight years ago to 53 per cent today; infant mortality was now the highest in the world.

While it did not urge the eight-year-old UN sanctions be lifted, it suggested a partial easing would let foreign companies invest in the oil sector, and other industries battered by sanctions.

Diplomats said the panel made clear that the oilfor food programme, allowing Iraq to sell limited amounts of oil to buy humanitarian goods, was inadequate. "The humanitarian situation in Iraq will continue to be a dire one in the absence of a sustained revival of the Iraqi economy, which in turn cannot be achieved through remedial humanitarian efforts," the panel said.

The recommendations were welcomed by France, which, with Russia and China, has called for a lifting of sanctions. Diplomats said yesterday that the US and Britain were likely to oppose proposals for investments in Iraq.

Security Council members are likely to disagree over their reading of the results of the 20-member disarmament panel.

Aid agency officials close to the UN said it recommended this week that Iraqi disarmament be moved to a reinforced monitoring and verification phase meant to ensure Iraq did not redevelop weapons it had eliminated.

The panel said intrusive inspections would have to continue under this phase, since the bulk of disarmament work had been finished, but important issues remained to be settled.

Analysts said this would provide the US and Britain with ammunition to argue that sanctions on Iraq should remain in place.

The panel suggested that Unscom, the UN commission charged with Iraqi disarmament, should be restructured. But it did not call for abolishing the commission and setting up a new one, as countries sympathetic to Iraq on the Security Council have wanted.

Analysts said the disarmament panel failed to produce recommendations that might entice Iraq to agree to the return of inspectors. The panel said it was up to the Security Council to find ways of convincing Iraq to resume co-operation.

It warned, however, that the longer inspection and monitoring activities remained suspended, the greater the risk that Iraq might reconstitute its proscribed weapons programmes or retain prohibited items.

A third panel reporting to the Council this week dealt with Kuwaiti prisoners taken by Iraq during its 1990 invasion. Its findings are believed to have been that Iraq has yet to give adequate information.

Some of the richest people on earth find it's time to tighten their belts

Low oil revenues are hitting the Qatari budget, reports **Robin Allen**

Feeling the pinch is a relative term for Qataris. A tiny Gulf Arab state, one quarter the size of Switzerland, Qatar is one of six members in the club of monarchies which together own 43 per cent of proven global oil reserves and about 15 per cent of gas reserves.

Its 150,000 citizens are a pampered minority in their own country. They pay no tax, "nor will they in the near future," says Mr Yousef Hussein Kamal, Qatar's finance minister.

They enjoy cradle-to-the-grave welfare handouts and electricity and water are free, although the government is considering commercialising these sectors "in the next six months" to save money.

The estimated 522,000 residents enjoy annual per capita incomes of almost \$18,000, among the highest anywhere.

Exclude the expatriates, and average Qatari incomes, from an estimated gross domestic product last year of \$9.3bn, are more than \$60,000 a year; twice as high, according to the World Bank, as any other country apart from the citizens of Kuwait and the United Arab Emirates (UAE).

Mr Kamal says, however, that people are ready to sacrifice some of their benefits, although he admits the savings are mostly to come from greater operating efficiency.

Under his 1999/2000 budget, which comes into force today, government spending is to be cut by nearly 10 per cent; and, with revenues forecast to be almost 15 per cent lower than last year, the budget deficit will be more than 10 per cent of GDP and nearly 35 per cent of state revenues.

To bridge the budget deficit, the government can either tap its hidden reserves, on which Mr Kamal is silent; or go to the international markets for a sovereign loan of up to \$1.5bn. The latter option would depend, says Mr Kamal, on the terms.

"By 2003," Mr Kamal asserts confidently, "our gross domestic product will be twice what it is today."

'By 2003,' Mr Kamal asserts confidently, 'our gross domestic product will be twice what it is today'

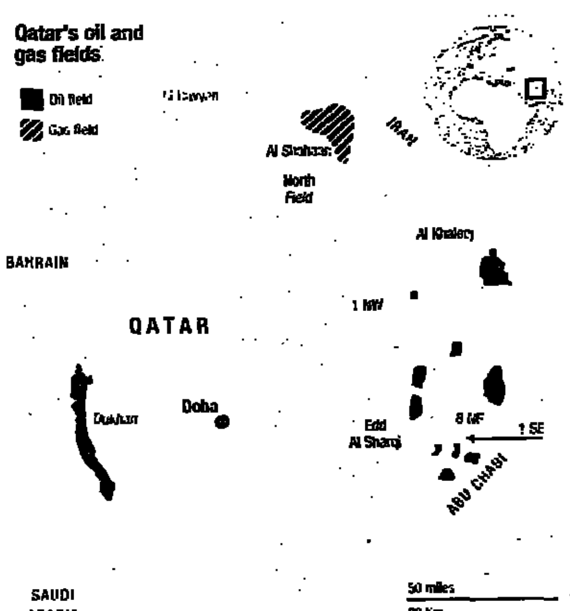
Thanks to its offshore fields of natural gas, which cover an area as large as the country itself, and its relatively limited domestic consumption, Qatar's public finances are in a less parlous state, and its prospects for recovery brighter, than those of its giant neighbours Iran and Saudi Arabia. There, soaring energy consumption and antiquated economic structures have put state coffers under serious strain.

Qatar has twice the natural gas reserves of either Saudi Arabia or Abu Dhabi and, unlike these two, all its gas is clean and easy to exploit. Neither sweet gas nor condensates are limited by Opec production quotas.

But the investment costs have also been massive – \$10bn, according to energy minister Abdullah Al-Attiyah, for the on- and off-shore installations of the two joint ventures, Qatar Liquefied Gas Company (Qatargas), of which the government owns 65 per cent, and Ras Laffan Liquefied Natural Gas Company (Rasgas), a 70/30 joint venture with Mobil.

Within six months these two will be exporting more than 11m tonnes per year to Asian markets. India and the UAE have already signed memorandums of understanding for additional sales and purchase agreements.

Qatar's reserves could also be used to supply a Gulf gas grid, on condition that deep-seated animosities felt by neighbouring ruling families towards Qatar's leadership can be overcome.



To make these investments, however, Qatar has had to borrow heavily.

Its foreign debt stands at \$8.6bn, or 92 per cent of GDP, which does not worry foreign bankers overmuch, so long as Qatar's ruler, Sheikh Hamad Bin Khalifa al-Thani, is in good health and the US is ready to protect Qatar's external security.

But the transition period, to the years 2004/2005, when Qatar should have paid off most of its public debt, is causing some concern.

So long as prices for natural gas are tied to the price of oil, Qatar's economic future depends, first, on the good behaviour of Opec states which previously have helped to drive prices down by cheating on their quotas and, second, on economic recovery in Asia, far and away Qatar's most important market.

هكذا من الأصل

WORLD TRADE ORGANISATION ACRIMONY OVER SELECTION PROCEDURE AFTER BOTH CANDIDATES VETOED

Deadline missed for choosing new chief

By Guy de Jonquières in London and Frances Williams in Geneva

World Trade Organisation members failed to meet their deadline last night for choosing a new director-general, amid bitter acrimony heightened by European Union accusations that the US was unfairly frustrating the selection process.

Ali Mchumo, Tanzanian chairman of the WTO's ruling general council, said the organisation faced the threat of a leadership crisis. He said the delay "breeds rumours, suspicions and even puts personal friendships at risk".

WTO members agreed to try again to reach a decision by April 14, after being unable to settle on either Supachai Panitchpakdi, Thailand's deputy prime minister, or Mike Moore, a former New Zealand prime minister, to succeed Renato Ruggiero.

Mr Supachai is widely believed to have a narrow lead in the race. But Mr Mchumo said the difficulties facing both the Thai candidate and Mr Moore were so serious that neither could command a consensus among the 134 members.

On Tuesday, Mr Mchumo said objections by some unnamed members had made it impossible for Mr Supachai to achieve unanimous support and that he was seeking instead to marshal a consensus in Mr Moore's favour.

Sir Leon Brittan, EU trade commissioner, yesterday strongly criticised the failure to identify the countries opposing Mr Supachai and said such "anonymous vetoes" should be disregarded in the selection process.

EU officials said they suspected one of the countries threatening a veto was the US, despite Washington's public insistence that it would not block the Thai candidate if he emerged as clear favourite.

US officials declined to respond directly to the EU allegations, saying Washington was continuing to seek a consensus candidate and believed he should be chosen on a "no-vote and no-veto" basis".

Sir Leon's voiced his criticisms in a letter to Mr Mchumo, as eleventh-hour efforts by the EU's 15 members to unite behind a single candidate collapsed in confusion.

EU ambassadors in Brussels effectively rejected a statement by the EU's German presidency on Monday that all their governments, except Sweden, favoured Mr Supachai.

Officials said at least five EU members, including Germany and Italy, said they still supported Mr Moore. Eight others were said to prefer Mr Supachai, while France declared itself uncommitted. Some EU government officials afterwards accused the European Commission of trying to steer the decision in Mr Supachai's favour by appearing to suggest that Mr Moore was too closely associated with US interests.

Mr Ruggiero is due to step down in early May. Failure to agree a successor by then would create serious problems for the WTO, as it prepares for a ministerial meeting at the end of this year that is widely expected to launch a new trade liberalisation round.

WTO members have been trying for more than six months to agree on a new leader from a field consisting originally of four candidates.


Brittan: Anonymous vetoes should be disregarded

Beating software piracy proves to be no soft touch

James Schofield reports from Lebanon on the difficulties of protecting intellectual property

Walid Kadi, owner of one of the largest software stores in Lebanon, picks up the invoice for the 28 computer discs piled on his desk. The originals would sell for between $50 and $150. But Mr Kadi has paid only $1.70 for each.

"This is maybe the only place in the world where you have the choice to buy a copy or the original," Mr Kadi says. "Look at the Microsoft Office 97 Professional. We sell it for $7. We also sell originals for about $200 to students and academics and for $650 to everybody else."

In Lebanon, where 40 per cent of households have a monthly income of less than $520, it is hardly surprising there are very few takers for the genuine article. The Lebanese government recently brought a new copyright bill before parliament that software manufacturers had hoped would make the thriving trade in pirate software a thing of the past. But before the law was passed, it was amended to allow students and educational institutions to make copies of original software for their own use.

As the experience of other countries in the region shows, solving the problem of software piracy is more than just a matter of legislation. While Egyptian copyright law is said to be among the better ones in terms of compliance with international standards, US-based copyright industries estimate that trade losses as a result of piracy in Egypt rose from $54.8m in 1997 to $62.7m last year.

They attribute the reverse to a lack of real improvements in fighting piracy and a failure to impose deterrent penalties.

Lebanese parliamentarians clearly had their own doubts about the law. When the government proposed the bill, it did so out of a conviction that failure to pass a copyright law consistent with the international Agreement on Trade-Related Aspects of Intellectual Property Rights (Trips) would harm its reputation.

Marwan Fares is a Lebanese parliamentarian who proposed one of the two amendments to the law. "These amendments were introduced to stop science being monopolised," he says. "I am a Christian but you know what Islam says? Nobody can own science. Who owns the Koran, the scriptures, the Bible – or science? They belong to everyone."

Nonetheless, Mr Fares says his concern was with students rather than the general public. "The banks and other businesses will not benefit. We are not against international commerce and industry."

Walid Nasser, a lawyer specialising in intellectual property law, says the law is now "absolutely not Trips-compliant," while accepting that it is, nonetheless, a significant step forward in protecting intellectual property in Lebanon.

There are two issues, says Ashok Sharma, the regional director of the Business Software Alliance. "One is whether the law is Trips-compliant or not. There are varying issues to be considered, but in no other country do you have an exemption for students."

However, he believes the exemption is not a grave problem, since most computer users are going to be affected by the new law.

"The other issue is enforcement. I can say that as far as this area is concerned, the real battle is starting now. The question is whether the Lebanese government is going to enforce the law or not."

'Look at the Microsoft Office 97 Professional. We sell it for $7. We also sell originals for about $200'

Dealers say the software manufacturers should explain the big price differential between original software and the raw materials used. "We know how much profit Microsoft is making," says Abdul Wahab Traboulsi, the owner of a small Beirut business dealing in software sales and network games. Mr Traboulsi says if software manufacturers can make music CDs or computer discs for a few cents per copy, they should not be overcharging for their product.

Charbel Fakhoury, the head of Microsoft's new regional office in the capital, counters by claiming that his company charges lower prices than its competitors. However, he says, the issue of price is actually irrelevant since computer pirates would never keep to a set price if they could get the product cheaper.

"If the product was $100 and then sold for $20, for someone who did not respect our copyright even $20 would be too much," he says.

There is another argument that says that Lebanon cannot afford to buy computer software at the prices paid by people in richer countries. To that, the copyright industry's reply is that Lebanese designers are going out of business because their work is not protected.

Jalal Fawaz is a Lebanese business partner for several larger American computer companies. "Piracy is hurting us much more than it is hurting Microsoft," he says. He adds that Lebanon is producing software to the value of about $30m annually. But he says the industry is being seriously threatened with extinction by computer piracy.

In one case, he recalls, a company which developed an engineering application found the software had been pirated after it had produced only a dozen copies. The company was forced to discontinue work. "When you expose your application to clients, no one respects disclosure agreements," Mr Fawaz says.

Lebanon ranks well behind some other countries in the region in terms of trade losses from copyright piracy. Total losses in Lebanon for 1998 were $14.2m, slightly more than a 10 per cent increase above the 1997 losses of $12.4m, according to the International Intellectual Property Alliance (IIPA), which represents those industries.

Trade losses from copyright piracy in Saudi Arabia amounted to $88m last year, says the IIPA. However, these losses pale beside those in Israel ($141m), Turkey ($225m) and – further afield – in Malaysia ($196m) and Paraguay ($298m).

NEWS DIGEST

REMEDIAL ACTION ON ACCESS SOUGHT

US ponders taking Japan telecoms case to WTO

Washington will consider taking a case to the World Trade Organisation about access to Japan's telecommunications market unless remedial action is taken by early in June, according to US government officials.

Charlene Barshefsky, the US trade representative, issued the warning after releasing an annual review of foreign countries' compliance with telecommunications agreements. Ms Barshefsky said Nippon Telegraph & Telephone (NTT) continued to charge high interconnection fees to other carriers wishing to offer intra-city services in Japan and complained about the Japanese government's ban against the use of leased lines by carriers already owning their own lines.

Japan's Ministry of International Trade and Industry (Miti) yesterday released its own report on problem trade areas with other WTO members in which it mentioned three new areas of priority concern with regard to trade with the US, including Washington's reinstitution of the Super 301 trade provision. **Gautam Malkani, Washington**

INTERNET-BASED TELEPHONE SERVICES

AT&T in Shanghai accord

AT&T, the US telecommunications operator, yesterday signed an agreement to provide internet-based telephone services in the Pudong development zone in Shanghai. AT&T signed a framework agreement to offer internet protocol (IP) services in a venture with two Chinese partners.

The contract will include a "virtual private network" in the Pudong district, a special economic zone in Shanghai that China has ambitions to turn into a leading financial and information technology hub.

William Daley, US secretary of commerce, on an official visit to China, observed the signing of the accord and said it would enable a foreign partner to provide telecommunications services in China for the first time. China had barred foreign companies from offering telecommunications services, though some have been operating as consultants or equipment suppliers. **James Kynge, Beijing**

EL SALVADOR AND HONDURAS

Deal on regional power grid

El Salvador and Honduras plan to build an electricity interconnection to provide Central America with its first regional power grid. The two countries have agreed to construct the link by 2001 with $30m of financing from the Inter-American Development Bank.

Lack of an interconnection between El Salvador and Honduras has held up transfer of electricity throughout Central America, making it difficult to cover temporary shortages in some countries. A grid will make the region more attractive for foreign investment in new power generation projects. Several companies are already interested in building plants in El Salvador, which is also planning to privatise some state-run generating plants. The need for interconnection was highlighted in February when the largest power plant in Honduras, supplying half of the country's electricity, was shut after a fire. The country has partially covered the deficit with expensive imported power from southern neighbours. **James Wilson, Panama City**

MEXICAN MONEY LAUNDERING CONVICTIONS COULD HAMPER EFFORTS TO ATTRACT INVESTMENT FROM US INSTITUTIONS

Banks find pain lingers after sting

By Henry Tricks and Andrea Mandel-Campbell in Mexico City

Carlos Ortiz Mena Lopez Negrete (far left), legal affairs director of Bancomer, and attorney Michael Lazerwitz leave Los Angeles federal court on Tuesday AP

Right up to the moment when Mexico's Banca Serfin officially pleaded guilty to money laundering charges in a US federal court, it had two different news releases ready to fire off on the fax. One, announcing the guilty plea. The other saying it would stand trial.

It was hedging its bets to the end, indicating the toughness of a decision that would either slur it as a convicted drug money launderer in the biggest such case in US history, or drag it through a potentially even more damaging trial.

After much agonising, it pleaded guilty late on Tuesday in Los Angeles, as did Bancomer, another of Mexico's three largest banks. They were fined $500,000. In addition, Bancomer agreed to forfeit $9.4m of ill-gotten gains, and Serfin gave up $4.2m.

The fines and forfeitures were just over half the $25.9m seized from the two banks in the undercover sting operation last May by US customs agents that was carried out without the knowledge of the Mexican government. They were not considered stiff penalties.

Nevertheless, the two banks are now convicted felons in the US, which could complicate their efforts to attract badly needed investment from US institutions – in December the government changed the banking law to permit full foreign investment in Mexico's three largest banks.

Bankers say Grupo Financiero Serfin, which is parent to Serfin, Mexico's third largest bank, may lose a $68m planned investment by JP Morgan, the US bank, which had been considered a key part of its efforts to stem a drain on capital in the wake of Mexico's 1995 financial crisis.

"Forever more in the history of money laundering, it will always be said that these banks were convicted. The harm done to their reputations is catastrophic," said Charles Intriago, a former federal prosecutor who publishes the Miami-based Money Laundering Alert.

The two banks, however, won some key concessions from US authorities in return for co-operating with further investigations into the so-called Casablanca operation. US prosecutors said they would put in a good word with the US Federal Reserve, which was expected to enable the two banks to escape a ban on operating in the US. Both banks have branches in the US, and Bancomer has long eyed a US equity issue.

They are also paying less than even they expected. Bancomer made $20m in provisions to cover possible penalties. It ended up paying just $9.9m.

A third indicted bank, Confia, which was bought by Citibank just days before the Casablanca bust, was forced to forfeit $12.2m, the entire amount seized by US agents. But criminal charges against it were dropped on Tuesday, partly because the bank was in government receivership at the time its employees committed the crimes, according to Alejandro Mayorkas, US district attorney handling the case.

During the three-year probe, mid-level employees from 12 Mexican banks were persuaded by undercover agents posing as members of powerful drug cartels to launder about $60m through fictitious accounts. Some were arrested after being lured to a Las Vegas brothel. A total of 115 defendants have been charged.

The case strained US-Mexican drug co-operation because Washington failed to notify Mexico that the banks were under surveillance, fearing such a leak could have put their agents' lives at risk. In February, however, the two countries agreed to share information on ongoing investigations, and tensions have eased.

As part of their guilty pleas, both banks pledged to tighten safeguards against money laundering, even though those put in place in Mexico just prior to Casablanca were widely considered stiffer than US legislation.

"The guilty pleas represent not only the culmination of the (US) government's efforts to hold the banks responsible for the past conduct of their employees, but also signify the government's success in ensuring that the banks join us in our efforts to combat money laundering," Mr Mayorkas said. He declared it "a tremendous victory".

US authorities also said the banks had agreed to provide evidence to help in the conviction of six individual defendants in the case. Jury selection in Los Angeles in the cases against them was due to start today.

Settlement of the case comes at an opportune moment for the two banks, removing a lingering uncertainty that had added to industry-wide woes over bad lending and a shortage of capital. "The banks have been fined, found guilty and it's over," said Lacey Gallagher, a sovereign risk analyst at Standard and Poor's, the US ratings agency.

For the banks, the harm done to their reputations is catastrophic

Both banks said there were no risks to their existing foreign partners. HSBC holds a 20 per cent stake in Serfin and the Bank of Montreal owns 16 per cent of Bancomer.

Another banking analyst, Carlos Gómez of Citibank Global Asset Management said the end of the case would enable both banks to re-access international capital markets, though borrowing is difficult for private Mexican institutions.

"It is best that they settle this issue and just forget about it," he said. "More than anything it is an image question."

Bankers see Colombia's forex market shrink

By Adam Thomson in Bogotá

Colombian bankers are still trying to fathom the logic behind a recent constitutional court decision which has unwittingly dried up the country's interbank and foreign exchange markets.

Three weeks ago, the court decided to extend a temporary 0.2 per cent tax on banking transactions – ushered in by the government last November – to include the interbank market.

The ruling has reduced the interbank market, an important source of short-term financing, to average daily volumes of 150bn pesos ($96.4m) from 600bn pesos previously. It has shrunk the dollar market to a token $20m a day from earlier levels of $200m.

The virtual disappearance of the market poses new problems for the economy.

The sudden lack of an interbank market has started to put pressure on interest rates, just when lowering them is considered essential for dragging Colombia out of recession.

High rates throughout last year are held mainly responsible for a 1998 GDP growth of just 0.2 per cent, the worst since 1942.

The central bank and the government have worked to lower the rates in recent weeks, and have reduced benchmark rates by more than 12 percentage points since November.

Last week, the interest on the government's domestic bonds rose three percentage points. Since the court's decision, the rate of decline in interest rates has petered out.

The decision comes at one of the worst possible times for the country's financial sector. Past due loans in the financial sector have risen to 12.1 per cent of total loans, against 6 per cent just over a year ago. The figure is now the highest in the region.

Analysts fear the tax could further widen the difference between borrowing and lending rates, considered too high at 8.1 percentage points. In Chile, the difference is half that.

"The decision hurts the banks, precisely the sector the tax was designed to help," said Stephen Edkins, senior analyst at Santander Investment's Bogotá office.

To counteract the decision, President Andrés Pastrana's government recently presented Congress with a proposal to extend the tax for a further 12 months, beyond its original expiry date of December, but to exclude interbank transactions.

The central bank, immune from the constitutional court's decision, has had to adopt a more expansionary monetary policy to offset the onerous effects of the tax.

Some analysts believe the central bank's greater expansionary tack could "overshoot", translating into future volatility on the exchange rate market.

Yet while central bank directors defend their actions, they admit the future is not as predictable as they would like.

US factory orders show sharp fall

By Gautam Malkani in Washington

US factory orders fell at their fastest monthly rate in nearly four years in February, the Commerce Department said yesterday.

Weaker demand in the volatile aircraft sector helped push orders for manufactured goods down 2.5 per cent from the previous month to a seasonally adjusted $340.5bn, following a revised 1.5 per cent rise in January.

The department also said the economy grew at a seasonally adjusted 6 per cent annual rate in the final quarter of last year. This was slightly down from the 6.1 per cent it had previously estimated for that quarter's gross domestic product, but was ahead of the 3.7 per cent increase in the third quarter.

While the strong growth figure indicates the economy remains resilient, estimates of corporate profits after taxes fell by 1 per cent in the fourth quarter, the fourth decline in five quarters. For 1998 as a whole, profits fell 2.2 per cent, the first full year decline since 1989.

Dave Huether, director of economic analysis at the National Association of Manufacturers, said figures for factory orders did not indicate emergence of a downward trend because orders for big-ticket items vary widely. "Today's report may lead some to believe manufacturing is headed for troubled waters, the decline in February's new orders was caused more by a rogue wave than a major economic storm," he said.

Because new orders can be filled out of current production, a better measure of future activity was unfilled orders. These fell 0.4 per cent.

The Commerce Department said the GDP figure was driven by upturns in exports, producers' investment in durable equipment and the acceleration of consumer spending on durable goods.

However, these were moderated by a downturn in inventory investment, an acceleration in imports and a slower consumer spending on services.

Canada lowers rate to 5%

Canada's central bank lowered its benchmark bank rate to 5 per cent yesterday to boost domestic consumer and capital spending, the first time in two years the central bank has eased rates without the US acting first, writes Edward Alden in Toronto. The one-quarter percentage point cut had been expected after several months in which Canada's inflation rate fell below the 1 per cent to 3 per cent target range set by the Bank of Canada. The Canadian dollar was unchanged at 66.2 US cents in early trading yesterday.

Financial markets had largely priced in the anticipated cut, with Canadian bond yields last week falling below US yields on short-term and long-term issues. The Bank of Canada was forced last August to raise overnight rates by a full percentage point to stem a fall in the Canadian dollar.

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Malaysia to tighten control over banking

By Sheila McNulty in Kuala Lumpur

Bank Negara, the Malaysian central bank, yesterday announced a series of measures to tighten control over the banking system as it revealed that the economy contracted 6.7 per cent last year, after recording 7.7 per cent growth in 1997.

Ali Abul Hassan Sulaiman, the bank governor, said that he hoped to formalise the measures by the end of the month and implement them soon after to fortify the sector hit hardest by Malaysia's economic recession.

The two biggest changes include reviewing the performance of bank directors and chief executives and sacking them if they are no longer performing, and separating into different holding companies banking institutions (which are supervised by the central bank) and non-banking institutions, such as securities houses, to keep problems in unsupervised entities from affecting the banks.

Bank Negara will eliminate tier one and tier two designations for banks as it encourages institutions to borrow to meet the higher capital requirements of tier one institutions to gain certain advantages. It will ensure future expansion in bank capital is funded by non-debt sources. And the bank will raise on-site examinations of banks, after encouraging self-regulation in recent years.

Economists supported the intention to strengthen the banking sector but noted some of the measures would make it easier for the authorities to press banks to lend beyond their means or to favoured entities, even when a transaction does not look sound.

They pointed to threats to sack the heads of financial institutions that did not meet 8 per cent annual loan growth by year's end as an example of the type of pressure already imposed on banks in a desperate bid to revive the economy. The heads did not respond, with total loans of the banking system declining by 1.8 per cent in 1998. But economists said the two-year performance appraisal could make companies respond.

"Improved supervision of the banking system sounds good in theory," said Kostas Panagiotou, senior economist at Kim Eng Securities. "But, at the end of the day, if you have politically directed lending, it defeats the purpose."

Economists say that type of lending made the banking system so vulnerable to the recession. It recorded a pre-tax loss of M$2.3bn (US$605m) in 1998, swinging from a pre-tax profit of M$7.7bn in 1997. Total banking system loans amounted to M$413.6bn at the end of 1998, or M$426.7bn including non-performing loans sold to the government's asset management company.

The authorities plan to focus efforts to revive the economy on fiscal spending. The central bank said this would result in 1 per cent economic growth in 1999 but added that 2 per cent was possible if external conditions proved favourable.

Pakistan banks cut interest rates

By Farhan Bokhari in Islamabad

Pakistan's five biggest commercial banks yesterday cut their interest rates to a maximum 19 per cent, from a 20-21 per cent range, to spur economic recovery.

The move followed days of speculation in the domestic financial markets that banks were under pressure from the government to cut rates, to help the economy recover from an almost year-long recession.

"The five large banks have decided they will now cut their marginal mark-up [interest] rates from 20 per cent to between 18 and 19 per cent," said Shaukat Tarin, president of the state-owned Habib Bank, the largest public-sector bank.

The state-owned United Bank and National Bank of Pakistan, and the privately owned Allied Bank and Muslim Commercial Bank, were the other banks to join the move.

Mr Tarin said Pakistani interest rates were high because the banks had to compete with rates of up to 18 per cent offered to long-term depositors by government saving schemes.

The government was reviewing the various schemes, he added, with an announcement possibly within weeks. But there was no indication of whether the schemes' interest rates would also be reduced.

Mr Tarin said that the 58 per cent rate of corporate tax for banks, compared with the 35 per cent rate paid by other companies, pushed up interest rates.

Business people were unimpressed by the move. They considered the 19 per cent rate as still high, and that the cut would have only a slight impact on the economy.

Mr Tarin offered the prospect of further cuts. "Mark-up rates could drop to 14-15 per cent. That's what we can see in the next few months."

Indian minister urges more economic reform


Ramakrishna Hegde: measures are needed to boost exports

By Mark Nicholson in New Delhi

Reform of India's labour laws, phased deregulation of currently protected small industries and other structural measures are needed to boost the country's flagging export performance, Ramakrishna Hegde, commerce minister, said yesterday during the ministry's annual trade policy review.

Mr Hegde revealed that India's exports had grown just 0.41 per cent in dollar terms in the 10 months to January – against an initial ministry forecast of 20 per cent growth for this year. Without providing export totals, he said exports had risen 12 per cent in rupee terms and added that the overall performance "should not be scoffed at" given the state of world and Asian markets in the past year.

He declined to give an export target for the coming year, commenting: "Once bitten, twice shy."

The minister also said he opposed devaluing the rupee as a means of spurring faster export growth – despite the claims of some private sector economists and exporters that the Indian currency is overvalued.

"It is not a solution," he said, noting that devaluing the rupee, which has held steady in a range around Rs42.4-Rs42.5 to the dollar for several months, would increase India's import bill and foreign debt burden.

Mr Hegde announced a series of modifications to trade policy in advance of India's new fiscal year, which began today. These included moves to cut export transaction costs and ease traders' bureaucratic burdens, for example, allowing export applications to be filed by e-mail.

The minister also said he would convert the country's seven Export Processing Zones, which enjoy infrastructural and fiscal benefits for exporting companies, into full Free Trade Zones, which would include exemptions from Indian labour laws. These zones would eventually be corporatised, he said.

In line with India's World Trade Organisation-based commitment to remove all quantitative restrictions on imports by early next century, a further 894 products would be moved from a current "negative" list of consumer goods imports to free trading. An additional 414 items will be moved from the banned list for trading under Special Import Licences, which are available to big exporters.

N Korea missile talks deadlock

By John Burton in Seoul

US officials yesterday warned that a quick solution to curbing North Korea's production and export of missiles was not in sight, as the two nations failed to make progress in the latest round of talks.

"It's a problem and will take a while to deal with," was the assessment of one US official after talks ended in Pyongyang. "I think North Korea has not given a high priority to the talks."

The issue has taken on urgency after North Korea launched a long-range Taepodong-1 missile over Japan last August, raising tensions in north-east Asia.

The US said it would not ease trade sanctions or establish diplomatic ties with North Korea until Pyongyang agreed to abandon its missile programme and halt exports.

North Korea has accused the US of trying to deprive it of its right to self-defence and says it will not give up missile development until the US abandons its "hostile" policy.

Pyongyang has "agreed in principle" to suspending missile exports if it receives compensation of $500m-$1bn annually. The US has rejected the demand, though it offered to ease trade sanctions once the missile programme was mothballed.

North Korea has become the world's largest exporter of ballistic missiles and technology, mainly to the Middle East, including Pakistan and Iran. "North Korea is heavily dependent on missile exports to generate hard currency," said the US official.

During the Pyongyang talks, Robert Einhorn, US deputy assistant secretary of state for non-proliferation, warned North Korea it would suffer "serious consequences" if it test-fired or exported medium-range Rodong or long-range Taepodong missiles.

The two nations agreed to arrange a fifth round of talks at an unspecified date.

Beijing refuses to rule out Spratlys building

By James Kynge in Beijing and agencies

China refused yesterday to rule out the possibility of building more structures on a disputed reef near the Philippines, contradicting assurances from Joseph Estrada, the Philippine president, that the two sides have reached an accommodation on their biggest bilateral disagreement.

A senior Chinese official, who declined to be identified, told journalists that the Mischief reef, which lies within the Philippines' 200 nautical mile exclusive economic zone, was an integral part of China. Any construction on the reef was therefore Beijing's "sovereign right", and nothing to do with Manila.

The official's remarks ran counter to those of President Estrada, who said after a two-day confidence-building meeting with Chinese officials last week in Manila that Beijing had pledged not to build new structures in the Spratly islands, a collection of more than 200 islets and reefs that span the South China sea.

President Estrada had cancelled a visit to China next month, the Philippine foreign ministry said yesterday. "We had problems scheduling the visit," Domingo Siazon, foreign secretary, said.

China's claim on all the Spratlys, over which it says it has exercised administrative control for more than 1,000 years, ranks as its leading territorial dispute with other claimants in the Association of South East Asian Nations, including Vietnam, Malaysia and Brunei. Taiwan also has overlapping claims with China.

No dispute is more vigorous than that with the Philippines.

China's construction of a multi-storey concrete building and landing platform – as revealed by new photographs this month – has incensed Manila and sparked calls for the renewal of a US-Philippine visiting force agreement which would bring closer ties to the Pentagon.

Japan market falls 4.2% on year

By Naoko Nakamae in Tokyo

Japan's stock market closed the 1998-99 fiscal year yesterday at 15,836.59, down 4.2 per cent from the year before.

But the close was considerably higher than the 13,406.39 achieved at the halfway mark in September, and came as a welcome relief for many Japanese investors.

The market's second-half rally has especially benefited many Japanese financial institutions, enabling them to improve the quality of their balance sheets by reducing, or even eliminating, their unrealised equity losses.

"This will be a relatively comfortable level for many financial institutions," said Hidetaka Kawakita, general manager in the treasury and capital market department at Nippon Life, the world's largest life assurer.

It will further improve the position of the 14 big banks which have just received Y7,450bn ($62bn) of public funds to boost their capital bases.

In return for the capital injections, the banks have promised to restructure their business and improve their asset quality.

Many banks had assumed a Nikkei level of around 13,000 in their plans submitted to the Financial Supervisory Committee.

"This has come as a pleasant surprise for many banks. At this level most of them will see the unrealised losses on their equity portfolios disappear. Some will have unrealised gains," said Koya Hasegawa, banking analyst at Warburg Dillon Read.

The distressed life assurance sector has also been given a respite. Last September, total unrealised equity losses for seven of the eight top life assurers soared to Y1,609bn. Only the industry leader, Nippon Life, managed to retain Y1,170bn of unrealised profit.

But at these stock market levels, Kyoei Life estimated yesterday that its unrealised equity losses will have halved from the Y111bn it announced at the end of the fiscal half year.

Chiyoda Life, another weak life assurer, said that the year-end Nikkei level was "better than expected".

Another assurer said: "Compared to September 30, our unrealised equity position has improved by several hundred billion yen, largely because of the rally in banking stocks.

"Life insurance companies tend to hold a large portion of bank shares, so the recent rally has been especially gratifying."

The market shot up in the last months of the fiscal year, with the Nikkei 225 gaining some 10 per cent, or over 1,400 points, in March. The rally was supported by buying from foreign investors augmenting their hitherto underweight positions in Japan.

Conversely, some domestic institutions have been selling their domestic equity holdings. Nippon Life said it had been selling when the Nikkei level was above 16,000.

"We are continuing to bring down our domestic equity weighting, though we would like to increase our holdings of future growth stocks. In general, our portfolio has more foreign assets now," said Mr Kawakita.

What looks good for Hokkaido now looks bad for Japan in the long term

Infrastructure spending is having short-term benefits, but may have the effect of delaying financial reform, writes **Gillian Tett**


Building for recovery: construction sites multiply across Japan AP

Not many parts of Japan's ailing economy can report a labour shortage. The construction industry in the northern island of Hokkaido, however, would appear to be one of them.

In recent weeks Hokkaido's construction companies have been flooded with so many orders that some are in the unusual position of struggling to find enough workers.

"Since last year we have seen a shortage of staff," says Masatoshi Kanazawa, deputy secretary general of the Hokkaido chamber of commerce. "The problem is particularly acute with skilled workers for bridges and ports."

Such a tale might appear to be unexpectedly good news for Keizo Obuchi, the prime minister, given that the jobless rate in the rest of Japan is rising.

But it also contains a crucial catch. For what has driven the sudden labour shortage in Hokkaido this spring is that the government is implementing a massive wave of infrastructure spending in an attempt to boost the economy. And though this has delighted Hokkaido's builders, what is equally striking is that it has not yet convinced local officials that a sustainable recovery has arrived.

"Government ministers are very optimistic about Japan's economy, but we cannot share that optimism," says Mr Kanazawa, pointing out that consumer spending and capital investment are still falling in Hokkaido. "The trend in public investment is good. But we don't see any signs that this is creating a recovery in other private industries."

Such sentiments are particularly ominous for Mr Obuchi, given that during the last year Hokkaido has appeared to be a crucial test case for financial reform in Japan. The island is sparsely populated and accounts for a mere 5 per cent of Japan's economy, but it shot to unaccustomed fame in late 1997 when Hokkaido Takushoku, its main bank, became the first large bank that was permitted to collapse in Japan.

This bold move created a severe downturn in fiscal 1997 in Hokkaido. It also sparked a wave of media scare stories about a looming "credit crunch". And this prompted the national parliament to implement a wave of measures to help Hokkaido, which has since been copied across the rest of Japan.

In fiscal 1998, for example, Hokkaido's budget for construction soared 34 per cent to Y1,400bn ($11.9bn), funded partly by central government subsidies and local government borrowing. At the same time the government implemented an equally important drive to use public and private money to offset any credit crunch.

North Pacific, another Hokkaido bank, has been "encouraged" by the government to take over Hokkaido Takushoku's Y1,700bn healthy loans, or 60 per cent of the total. Meanwhile, government institutions or semi-public agricultural co-operatives have been similarly "encouraged" to plug the remaining lending gap.

The consequence of this is that the overall balance of lending to Hokkaido companies is running at around Y11,000bn, little changed from two years ago. And though bankruptcy estimates vary, the chamber of commerce calculates that a mere 120 companies have collapsed as a direct result of Hokkaido Takushoku's failure.

"I don't think there is a strong credit crunch now in Hokkaido because the government and North Pacific have helped so much," says Matsuo Ishida, deputy head of the Hokkaido prefecture financial planning section.

Such measures have come as a relief to many local businesses. "Last year I had been expecting that I would have to restructure my company," says Toshihiro Saka, president of one of Hokkaido's 28,000 construction companies. "But I changed my mind after the new spending package. We are now very busy."

But the problem is that these measures still seem nothing more than a short-term "sticking plaster" solution. For by creating this safety net, the government has staved off the type of widespread restructuring that many economists believe is needed in Japan.

At the same time this wave of government spending seems unsustainable. Hokkaido's own debt levels, for example, have already doubled to Y4,000bn in the last four years. Japan's central government debt is soaring. And the rising level of government loans is now threatening to leave public institutions holding more bad debt in the future. "What I am worried about is what will happen in two or three years' time when these borrowers have to repay the loans," admits Mr Ishida.

For the moment Mr Obuchi in faraway Tokyo is shrugging these problems off, hoping that public spending will eventually boost private demand. And in Hokkaido itself some officials still hope that additional spending packages will emerge to stave off any downturn later this year.

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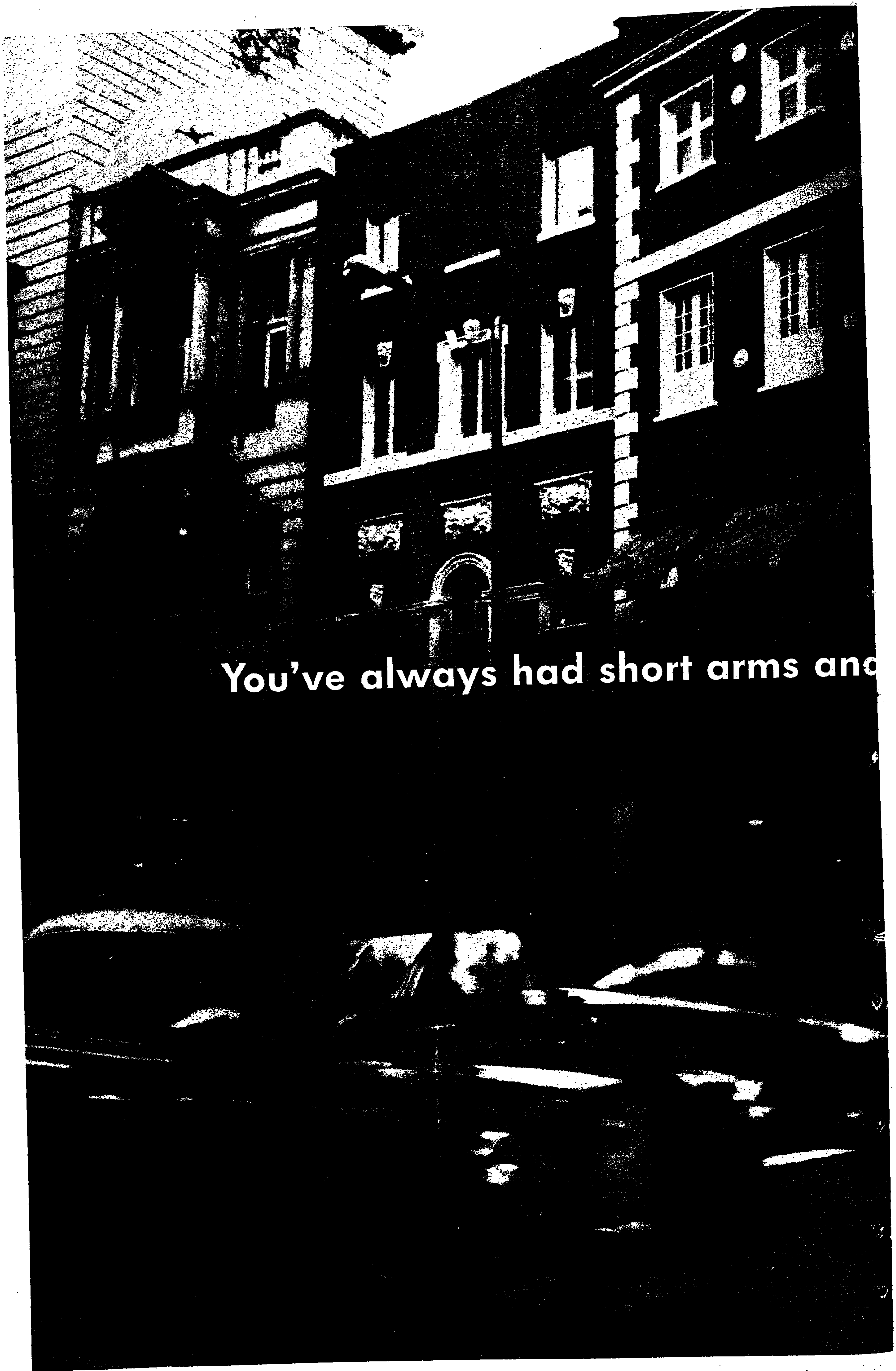

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BMW agrees aid deal for Rover site

FT Reporters and Agencies

BWM has agreed a state aid package to safeguard the future of its Rover offshoot's biggest factory, the UK government announced yesterday. The factory at Longbridge, in the English Midlands, is the biggest car plant in the UK.

Professor Joachim Milberg, BMW chairman, has accepted government aid which will lead to heavy investment in the factory. The deal is subject to ratification by the BMW board, which will meet next month, and by the European Commission.

Tony Blair, the UK prime minister, said in the House of Commons he was "delighted" that people could look forward to BMW making Longbridge a "world class plant for the next century".

The amount of aid was not disclosed, but the government's original offer of about £118m ($190m) is understood to have been raised to more than £150m. BMW had been hoping for at least 10 per cent of the project's cost, or £170m.

The company is now expected to press ahead with a programme to build a new range of cars at Longbridge and to modernise the sprawling factory. A joint statement from the UK government, BMW and Rover said: "We are pleased to announce that we have reached agreement in principle on the size and nature of a Government-aid package which will secure production of the new medium car at Longbridge."

It went on: "Such an agreement is still dependent upon the BMW board approval and when formal agreement is reached between the government and BMW, this package will require approval from the appropriate EU authorities. This news is a massive boost for both the Rover group and the West Midlands industrial base as a whole. We look forward to Longbridge becoming a world-class plant for the next century..."

The way is now clear for replacement models for the Rover 200 and Rover 400 cars to be made at Longbridge in 2001-02. Before then, the 200 and the 400 will be revamped at Longbridge, with the plant also producing the eagerly-awaited Millennium Mini in 2000.

Ken Jackson, general secretary of the Amalgamated Engineering and Electrical Union said: "The government has delivered its promise of not walking away from Longbridge. After months of damaging speculation, the clouds have been lifted."

But people close to the negotiations suggested last night that Mr Byers - who had intended to talk to Mr Milberg directly over the next few days - decided instead to call what increasingly appeared to be BMW's bluff. With Hungarian government departments insisting no negotiations of substance had taken place with BMW, the German company's threat that the project could go to Hungary began to appear increasingly empty.

Volvo reshuffle, Page 19
Comment, Page 26

FINANCE BILL CLAMPDOWN ON FLAWS IN RULES FOR DISCOUNTED SECURITIES WILL BE BACKDATED

Tax loophole on bonds to be blocked

By George Graham, Banking Editor

The Government's finance bill, published yesterday, blocks a tax loophole that exploited flaws in the rules introduced in 1996 for discounted securities such as zero coupon bonds. The changes will be backdated to February 15.

Discounted securities pay little or no interest, but the return to the holder comes in the form of a discount from the redemption price. Since the introduction in 1996 of new rules on loan relationships, this return is supposed to be taxed annually as it accrues.

However, the Inland Revenue said schemes had been devised with an option to redeem early, and so could be defined as convertible.

The intended result of these schemes is that the bond issuer gets tax relief for notional interest paid out annually in the form of the accruing discount.

The holder is taxed only on disposal, under capital gains tax rather than income tax.

"The change will ensure that holders of discounted securities cannot escape an income charge on the discount by arranging an artificial option - which would never in practice be exercised - for the holder to redeem early at par," the Inland Revenue said yesterday.

The problems arose because the 1996 changes transposed a narrow definition, used to determine who could qualify for a particular benefit, into an anti-avoidance context, where such a narrow definition was fairly easy to circumvent.

● The finance bill contains a stay of execution on a popular tax loophole used widely in the financial sector - especially by banks - which allows them to cut administration costs and reduce payments of value added tax. Jim Kelly writes.

Peter Jenkins, VAT partner with Ernst & Young, pointed to the unexpected new starting point of January 2000 for the VAT regime as a welcome concession to a wide range of businesses adding that the announcement was "extremely helpful".

The government aims to stop tax avoidance in the use of so-called "VAT groups" - in which a collection of related companies are treated as one entity for VAT purposes.

On the day of the Budget, it was announced that UK companies would no longer be able to include foreign subsidiaries in VAT groups on the basis that one of the directors was a UK resident.

In effect, the law allowed non-resident companies into groups - a concession not given in the rest of the European Union.

Transparent debt management earns credit from market

Transfer of 300-year old task seen as step towards streamlined government bond operations, **Edward Luce** writes

After having managed the UK government's debt for the last 300 years, the Bank of England, the UK central bank, finally transferred control over the UK gilt (government bond) market to the Treasury on April 1 last year. The move - a quid pro quo for the Bank gaining control over monetary policy - was seen as a step on the road to the full modernisation of the gilt market.

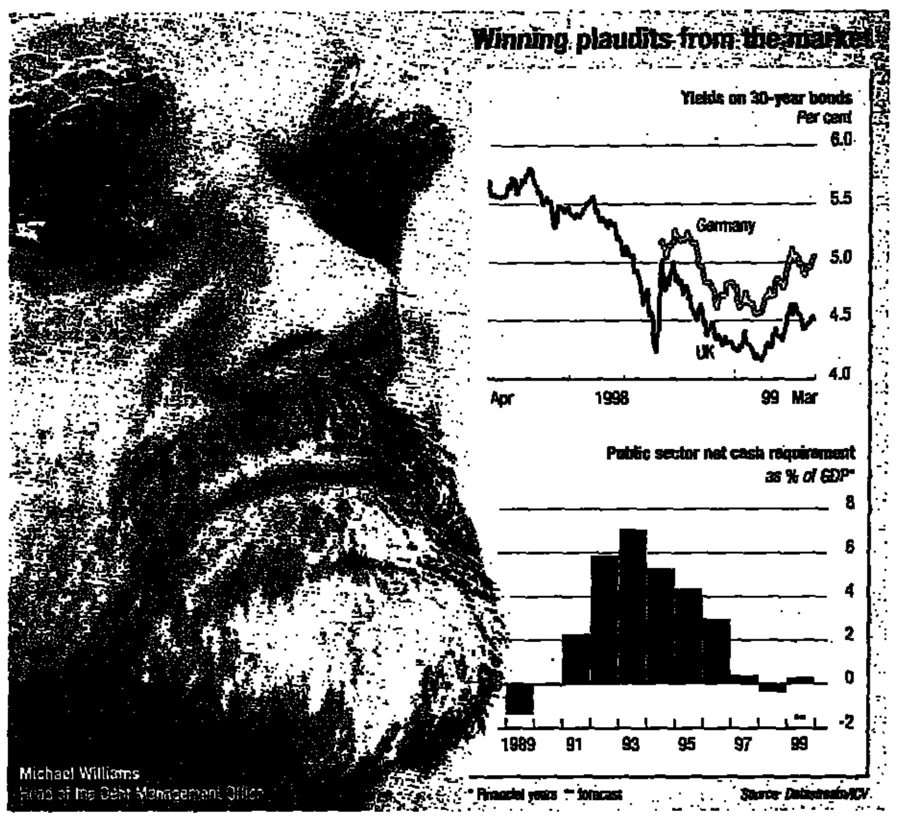
Michael Williams, head of the Debt Management Office, which has arms-length independence from the Treasury and is based in the City, has won plaudits from the market for immediately enhancing the transparency of UK gilt operations.

Although Gordon Brown, chancellor of the exchequer, has been accused of using the word too often, economists say Mr Brown was clearly in earnest when he said the DMO would work to improve "transparency" in the gilt market.

Indeed, the creation of a separate agency for control over debt management is widely seen as an important part of the effort to attract new players to the gilt market. The UK is the only leading economy which has made such a move. But some of the smaller countries, such as Sweden. New Zealand and even Poland have also launched separate debt management agencies.

Since its launch 12 months ago today, the DMO has had to contend with one basic problem: shrinking government debt. Last year there were net redemptions of £8.8bn ($14.2bn) to the £300bn large gilt market. Although this is considered good news from the point of view of fiscal policy, shrinking debt is bad for market liquidity and unpopular with the leading operators, including marketmakers. Many remember the illiquidity and the pain when the market last shrank in the late 1980s as the Thatcher government used budget surpluses to repay debt.

One of the DMO's responses has been to launch several debt "conversion" schemes where the market is invited to trade in old "illiquid" or "off-the-run" gilts for new much larger benchmarks. Roughly £8bn has been converted in the last 12 months. As a result there are around 20 separate gilts worth £8bn or more - a highly concentrated market by European standards. Mr Williams also plans to launch gilt "switch" schemes in which investors can swap a portion of particularly large gilt issues for medium sized gilt issues. This will help iron out anomalies in size.



Michael Williams
Head of the Debt Management Office

But economists say the DMO will come up against much thornier tasks than how to improve liquidity and transparency. Most obvious is how it will handle the UK's uncertain - but now officially sponsored - entry into European monetary union. Assuming the UK does join the euro, the DMO will have to think hard about how to maintain the gilt market's attractiveness vis-a-vis the much more popular German bund market.

Mr Williams says that the UK can draw on the advantage of having a much larger pension and insurance fund industry than Germany which means that there is correspondingly greater demand for longer-dated government debt including 30-year bonds owing to the pension sector's long horizons. Indeed the UK's 30-year benchmark trades at a premium to its German equivalent - the reverse is the case for 10-year debt and below. "The long-dated gilts could become the 30-year benchmark for the euro," said Mr Williams.

In addition (under yesterday's Finance Bill) the DMO is to be given control over the Treasury's daily cash management operations, a task which will often mean billions of pounds are under its control on certain days. The DMO, which, again, takes over this responsibility from the Bank of England, says it will use the opportunity to boost the UK's Treasury bill market, which is considered illiquid by international standards. A T-bill has a maturity of less than one year. "Managing this amount of cash efficiently is a mammoth task," said one economist. "But it makes sense to take it away from the Bank now that it sets interest rates."

Newer universities challenge Oxford and Cambridge

By Simon Targett in London

Britain's "red brick" universities, mainly created since the 1960s and for years dismissed as second choice institutions for the country's brightest students, are increasingly challenging the ancient hegemony of Oxford and Cambridge, according to the second Financial Times survey of universities.

Five London colleges command positions in the top 10. Beyond London, Bristol University, at sixth, and Warwick University, at eighth, were the newcomers in this year's top 10. York University also features in the top 10.

Just outside the top 10, but outstripping Oxford or Cambridge in some key performance indicators, are Bath, Edinburgh, Nottingham, Essex and St Andrews.

The spectacular rise in the fortunes of London's colleges is also putting in doubt the future of the University of London, one of Britain's most famous academic institutions, which encompasses a number of institutions in a "federal" structure.

Sir Ronald Oxburgh, rector of Imperial College, part of the university, said the federal institution, which has traditionally formed a so-called "golden triangle" with Oxford and Cambridge, now had "a tenuous existence". He did not rule out Imperial breaking its close link with the university and setting up as its own degree-awarding academy.

The FT survey shows that Cambridge, with an FT score of 74.23 out of 100, remains Britain's top university, while Imperial, with a score of 70.1, comes second, like last year pushing Oxford into third place.

Next year Imperial may even challenge Cambridge for the top slot, since the college's own data show that, by merging with two London medical schools, it now boasts the biggest turnover of any university in the country with £309.7m ($498.61m), compared with Cambridge's £293m.

Two other London colleges in the FT top 10 - University College, the third oldest university in England, and King's College - have completed successful mergers with London medical schools. Even colleges without medical schools - the London School of Economics, still in fourth place, and the School of Oriental and African studies, a new top 10 entrant, in seventh place - are closing the gap with the ancient universities.

Graham Zellick, vice-chancellor of the federal university, said: "The University of London is not essential," adding the big colleges could "survive and flourish on their own".

Business chiefs reject energy levy offer

By Andrew Taylor and Kevin Brown

The government's offer of a 50 per cent discount in its proposed energy tax is inadequate, the Confederation of British Industry, the UK's principal employers' organisation, said yesterday.

Adair Turner, CBI director general, said: "We believe that the levy reduction must be significantly greater than 50 per cent if it is not to have extremely damaging long term consequences for important parts of the UK's manufacturing base and jobs."

Mr Turner complained that important aspects of the design of the "green levy" had been decided without consulting industry or business. The government has proposed to introduce the new energy tax in April 2001 to help Britain meet its international climate change obligations. John Prescott, deputy prime minister, told business leaders on Monday that he was considering reducing the impact of the tax on the biggest industrial users by 50 per cent in return for substantial cuts in their energy consumption. The move followed complaints that the proposed tax would cost energy intensive users, such as steel manufacturers, hundreds of millions of pounds, undermining their international competitiveness.

The tax announced in the Budget was originally expected to raise £1.75bn ($2.80bn) a year which the Chancellor of the Exchequer said would be offset by reductions in employers' national insurance contributions. Large capital intensive energy users have complained that they have much less to gain from national insurance reductions than labour intensive, low energy users.

● One of the main political battle grounds during the finance bill's passage through parliament will be fuel duty and energy taxes. Ministers privately admit that increases in fuel duty are the area where the government is most vulnerable. Opposition parties will use the duties as an example of alleged "stealth taxes".

Full details of finance bill on the FT website: www.ft.com

'CHINESE WALLS' CASE ECHOES LANDMARK JUDGMENT FOR PRINCE JEFRI OF BRUNEI

Court backs stronger data barriers

By Jim Kelly, Accountancy Correspondent

The London courts this week struck a fresh blow for better "Chinese walls" to protect clients when a judge ruled that the proposed merger of the accountancy firms Robson Rhodes and Pannell Kerr Forster could only go ahead if better data barriers were in place.

The case is the first since a landmark judgment was given in favour of Prince Jefri of Brunei who brought an action against KPMG, his former accountants, alleging that the firm's Chinese walls were inadequate to protect confidential data.

The case confirms that the courts, while accepting that Chinese walls can protect clients' interests, stress that safeguards must conform to high standards and will have to be more formal than previously expected.

The judge was told that a group of Lloyd's Names - the individuals who have traditionally supported the insurance market - had brought an action because they had hoped to use expert witnesses from Robson Rhodes, the accountants, in an action against their auditors Pannell Kerr Forster. They were then told the two firms were merging on May 1. Robson Rhodes had told the Names they could no longer act for them because of the merger. Originally the Names brought the action to stop the merger going ahead.

"The judge ruled that Robson Rhodes would be in breach of its contract with the Names by refusing to continue advising them in connection with their case against Pannell Kerr Forster," said law firm Bracher Rawlins, acting for the Names.

The idea that the two Robson Rhodes partners and an employee should go on "garden leave" for the duration of the action was dismissed and the judge decided instead to toughen up the Chinese wall arrangements offered by the firm.

As a result, Frank Attwood and Hosein Hamedani, partners in the firm, and Sarah Bell, an employee, will be isolated from their new colleagues in Pannell Kerr Forster who had any part in the audit of Syndicate 190.

Robson Rhodes said they welcomed the judgment and had offered the extra safeguards after suggesting the partners be isolated in a separate department. "This is the first case since Prince Jefri and it proves that these walls can be made to work," said Mr Hamedani.

He added that the judge had decided that an implied contract existed between Robson Rhodes and the Names. This finding brought forensic accountants closer to lawyers in their duties - a similar finding to that in the Prince Jefri case, he said.

Euro poll disparity is explained

By Kevin Brown, Industry Editor

The business community has been asked twice whether it favours British participation in the European single currency. The MORI polling organisation found that it did; ICM that it did not. Both are highly reputable organisations. So which is right?

The answer, confusingly, may be both. But the conclusions that can legitimately be drawn from the surveys depend on what you want to find out.

Like most opinion research surveys, the results of the polls reflect two critical elements: the wording and sequence of the questions that were asked, and the sample and the way the answers are weighted.

MORI's poll, carried out for the Financial Times in September, found that 26 per cent of businesses favoured joining the euro as soon as possible and 37 per cent wanted to join after the next general election. This gave a total of 63 per cent broadly in favour. Only 23 per cent said they wanted to rule out joining.

ICM's survey, carried out this month for the Business for Sterling lobby group, found that only 8 per cent wanted to join now. A further 33 per cent favoured membership after the completion of the preparations launched last month by Tony Blair.

This gave a total of 41 per cent in favour. However, 43 per cent said they wanted Britain to keep its options open but probably not join, and 16 per cent wanted to rule out membership altogether - a total of 62 per cent.

The main difference between the two surveys lies in the sample. MORI surveyed businesses with a minimum of 11 employees, while ICM included all businesses, right down to sole traders.

Both organisations then weighted their results to take account of the larger numbers of small businesses. But while 95 per cent of Britain's 3.6m-4m businesses have fewer than 10 employees, they account for only 23.1 per cent of turnover, according to figures from the government's trade and industry department.

This means that ICM's weighting produces results that are heavily biased towards the less economically important smaller businesses.

Arguably, this is not very different from a poll of the entire population.

A clear comparison between the two surveys is not possible, but the detailed ICM responses, broken down by company size, confirm that there is a majority in favour of the euro among businesses with more than 50 employees, which account for 60.9 per cent of turnover.

However, Eurosceptics have pointed out that MORI's poll for the FT gave mildly sceptical respondents no option other than to rule out joining, which they argue may have inflated the apparent strength of support for the euro.

NEWS DIGEST

AEROSPACE INDUSTRY

State to put $97m into threatened research

The government has bowed to heavy lobbying by the aerospace industry and is to provide £60m ($96.6m) over the next three years to support a key aeronautics research programme. The industry had feared that the government would scrap the programme as part of its strategy of redirecting resources away from industry-specific support.

Detailed spending plans, published yesterday, show £20m a year of funding for the Civil Aircraft Research and Technology Demonstration programme compared with £24m last year. The Society of British Aerospace Companies welcomed the retention of the programme, which it said played a significant role in maintaining the aerospace production base in Britain. Support for the space industry is also declining from £102.4m last year to £90m in 2001-02. **David Wighton, London**

MINISTRY OF DEFENCE

New bodies to aid efficiency

Two new organisations aimed at making the Ministry of Defence more efficient and effective at procuring defence equipment will be launched today. The Defence Procurement Agency will replace the former Procurement Executive. The semi-independent agency will have a slimmed-down top management structure and will be set targets to make sure it gets defence equipment into service on time and within cost.

The new Defence Logistics Organisation will bring together the three separate service logistics organisations by April 2000. It will become the largest joint organisation in UK defence, employing about 41,000 people and will concentrate on supporting defence equipment once it is in service. The merger of the three service logistics organisations follows the government's Strategic Defence Review, which laid out plans for more co-operation between the armed forces. **Sathnam Sanghera, London**

BRITISH MUSEUM

Managing director appointed

The British Museum has appointed its first managing director, Suzanna Taverne, previously director of strategy at Pearson, publisher of the Financial Times. She will work alongside Dr Robert Anderson, its director, but report directly to the board of trustees. Yesterday, she likened her role to that of a publisher, with Dr Anderson as editor.

The British Museum was criticised in a consultants' report in 1996 for lacking adequate financial controls and moving towards a mounting deficit.

Ms Taverne's arrival at the museum reflects a trend that is affecting all the UK's leading arts and heritage institutions. The Royal Opera House, Covent Garden, is now run by a manager, American Michael Kaiser, who was recruited last November as executive director, on the strength of a reputation for turning round ailing arts organisations. **Antony Thorncroft, London**

FOOD STANDARDS

'Give agency broader remit'

Ministers were yesterday urged by MPs to give the new Food Standards Agency a broader remit, covering areas such as nutritional advice and food advertising. A committee of MPs studying the draft agency legislation said the agency "should be the body responsible for setting the nutritional and dietary standards" applied by the government.

The food industry has lobbied ministers against giving the agency powers over nutrition, fearing it could mount campaigns against such common ingredients as sugar or salt. The MPs say the government's original plan to levy a flat rate £90 a year levy on all food outlets to fund the agency is "contrary to natural justice". Ministers are now expected to introduce a graded system, with supermarkets bearing a larger share than small local shops and takeaway food outlets. **George Parker, London**

MOBILE PHONES

Operators agree text system

Mobile phone users in the UK will soon be able to send text messages between different networks after an interconnection agreement was reached between the four UK operators. From today, subscribers to Orange and Cellnet will be able to send messages of up to 160 characters to users of each other's networks. One-2-One and Vodafone will join the system soon. **Christopher Price, London**

PRINCESS OF WALES COMMEMORATION

Demand for coins 'enormous'

Demand for coins commemorating the life and work of Diana, Princess of Wales has been enormous, the Royal Mint said yesterday. Limited editions of gold and silver versions of the coins will be made available to the public today. More than 3,000 advance orders have been made for the gold coin, which costs £595 ($958) and has a limited issue of 7,500. Fifteen thousand people have ordered the £32.50 silver coin which has a limited issue of 350,000. It was announced in January that an official UK coin would commemorate the Princess, with all proceeds going to fund memorials recommended by the Memorial Committee set up in her name. The coin features a portrait of Diana in profile by David Cornell, with a portrait of Queen Elizabeth on the other side.

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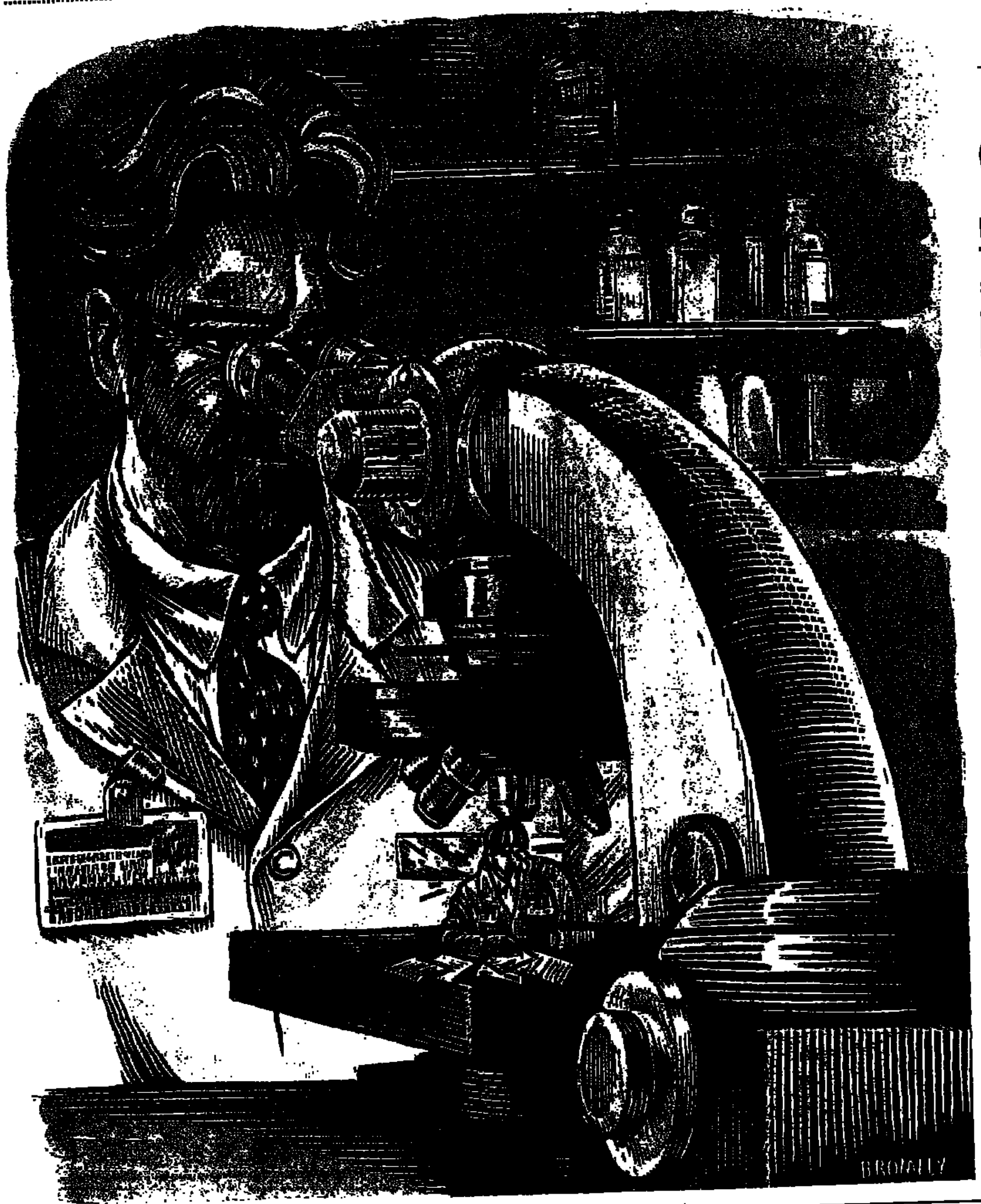
ACCOUNTANCY APPOINTMENTS



Peer review needs care, not neglect

In the second of a series on how scientists regulate themselves, **Tom Barlow** argues that the traditional method of appraisal should not be discarded despite its inherent flaws

Science under scrutiny

Science often seems an inexorable process, no more governable than a flowing river or a steadily rising flood.

But whichever image you prefer – the one that takes us somewhere or the one that forebodes an eventual drowning – both are wrong in the way they suggest science is something that "just happens" outside human control.

In fact the steering of science – most of it anyway – is carried out by a procedure called peer review. This term means just what it says: a group of scientific peers (in the sense of equals) will review a project, person or paper and assess whether it is good enough to receive funding, a job or publication.

The peer review process is important because science itself is important. Decisions about whether to invest in molecular biology or taxidermy, immunology or vitalism, particle physics or astrology, neurophysiology or mesmerism are of considerable importance to the future of society.

We want the best people doing our research. And we also need to know which research, once it is completed, we can trust.

Peer review provides a mechanism, possibly the best mechanism there is, for making these sorts of decisions – but that is not to say that the reviewers will always get it right. For the system to work well, peer reviewers must be expert, independent and ethical.

The importance of expertise should be obvious: it is very difficult to assess an experiment that uses nuclear magnetic resonance spectroscopy to analyse protein folding, if you don't know the first thing about spectroscopy or proteins.

Independence is similarly crucial: without it one might, for example, be tempted to reject a grant proposal or a submission to a journal if it is opposed to one's own pet theory. Independence is becoming a problem in certain areas of big science.

In experimental particle physics and some areas of molecular biology, for example, it is sometimes difficult to find reviewers who do not stand to benefit in some way from the award of the very grant they are trying independently to assess.

Being ethical, however, is the most important characteristic of a reviewer. Ben Martin, director of the Science Policy Research Unit at Sussex University, says: "I am aware of a couple of instances where ideas were pinched from proposals then re-used by the reviewer for their own proposal . . . I am also aware of one or two cases in which the papers were held up while reviewers made use of them for their own papers."

Although he is quick to point out that only a tiny minority of peer reviewers behave in this unethical way, Professor Martin says the numbers are increasing, almost certainly as a consequence of the growing intensity of competition in science.

"When success rates for grant proposals are down at the 20 to 30 per cent level, that encourages fraudulence and unethical behaviour," he says.

The only way to deal with these "less than scrupulous scientists," Prof Martin says, "is through openness and transparency – look at the situation thoroughly and make the results public as a way of warning the others."

Other forms of unethical behaviour in peer review may be perpetrated unconsciously.

Two years ago, researchers at Göteborg University in Sweden published a paper in the journal Nature, presenting some pretty strong evidence that the peer review system of the Swedish Medical Research Council was sexist and nepotistic.

Unfortunately for the Swedish MRC, it seemed that women had to be 2½ times more productive than men to get an equivalent ranking by peer review. Not only that, a woman applicant could seemingly "make up" for her gender if she knew someone affiliated with one of the reviewers.

The women in the study did not come disproportionately from less renowned universities or low priority areas of research, nor were they any less likely to have collaborated with academic decision-makers.

'Fraudulence needs to be tackled through openness and transparency'

In the absence of any other explanation, the authors concluded that the peer review system in the Swedish MRC discriminated against women.

Agnes Wold, a researcher in the Department of Clinical Immunology at Göteborg University, and one of the authors of the Nature paper, says that since the publication of her paper, the Swedish MRC (which, initially, was astonished by her results) has conducted a further study of its own.

Since then, "women and men have had the same success rate both for grants and positions, and presumably for money too," she says.

It is pleasing to know that a peer review system can reform itself. What is particularly interesting, however, is that the system thought it was objective when it was not. This is an issue that is particularly important in the appraisal of research for publication.

Science proceeds rapidly because scientists are able confidently to build on the work of others. This requires a level of trust and a belief that what others have done is reliable.

Some method is required for vetting what is worth reading and, more importantly, what is worth trusting.

It is important that such a method is, as far as possible, objective. Is that possible? Laura Garwin, North American Editor of Nature, says: "Scientists are only human, so it would be a foolish editor who did not admit that the process was not always objective. What editors try to do is to filter out or compensate for whatever subjectivity there is."

A good editor will do this in a number of ways: through the selection of appropriate referees (for example, by allowing the author to exclude a limited number of people from the pool from which their referees can be drawn); by reading the reviews carefully, to ensure that good reasons are given for acceptance or rejection of a manuscript; and by giving the authors the opportunity to appeal against a negative decision should they wish.

At the end of the process, a paper that has been reviewed may not be perfect. (Indeed, it may be fraudulent, or full of unperceived errors – things will always slip through the net.) But clearly a peer-reviewed paper is more likely to be dependable than a paper that has not been reviewed.

Because scientists often distribute pre-prints of their papers before they have been accepted for publication, the scientific community can give the impression that peer review is irrelevant.

"By the time a paper is in print, either everybody already knows about it or it's not worth knowing," says Susan Cooper, professor of experimental particle physics at Oxford University.

"But, everybody knows the danger of believing a pre-print too much, so [until it is published] we take things with a grain of salt and might be reluctant to quote it. People do value the final version more highly," she says.

That, ultimately, is what makes peer review useful, both to the public and to the scientist.

It may not be perfect – it is subjective and open to abuse – but it is more likely to get things right than not. That may not inspire blind faith in either the results of science or the direction it is going, but it is good enough to foster some degree of our trust.

The series continues next Thursday with an article on fraud in science.

TECHNOLOGY WORTH WATCHING

Bug buster blamed for resistance

Concerns are growing about triclosan, the general purpose anti-bacterial and anti-fungal agent used in a vast array of household products, from toothpaste to tea towels.

The fear is that its widespread use is fostering antibiotic resistance. Scientists believed triclosan acted in an insufficiently specific way for resistance mechanisms to evolve against it until Nature, the science journal, published research showing that triclosan is a potent inhibitor of a bacterial enzyme in the synthesis of fats.

A follow-up analysis, published in today's Nature, underlines the concerns about triclosan. Researchers at the University of Sheffield showed that triclosan inhibits the enzyme at very low concentrations. They also proposed a series of biochemical steps by which *E.coli* bacteria could become resistant to the chemical.
University of Sheffield: UK, tel 0114 222 2000, e-mail d.rice@sheffield.ac.uk

Genes put pain under control

Researchers in the US have shown for the first time that gene therapy can be used to control pain in animals. The development could lead to new treatments for chronic pain associated with conditions such as cancer, arthritis and angina.

The researchers at the University of Pittsburgh and the University of South Carolina treated mice with a herpes virus containing a gene that triggers production of a pain-blocking protein. The gene appeared to act on C-type neurons, which are thought responsible for slow, burning pain.

The researchers hope that within a few years they can devise a treatment that is effective, non-addictive and without the side-effects associated with conventional narcotic-based pain relievers. The study is published in the March issue of the Proceedings of the National Academy of Sciences.
University of Pittsburgh: US, tel 0014126242607; http://www.pitt.edu/rsup/phgt

Cancer answer in the tea leaves

Drinking green tea has long been associated with a reduced risk of cancer. Green tea has also been shown to inhibit particular types of tumours in animals.

A report in today's Nature gives a clue about the way green tea may affect cancer. Researchers at the Karolinska Institute in Stockholm have identified a component of green tea, epigallocatechin-3-gallate, which prevents the growth of new blood vessels, an important process in tumour growth. Other diseases linked to the growth of new blood vessels, such as certain eye conditions associated with diabetes, might also be inhibited by drinking green tea.
Karolinska Institute: Sweden tel +46 8 728 7596, e-mailyihai.cao@mtc.ki.se

Polymers that may save lives

Deaths in aircraft accidents could be reduced by the use of novel polymers that are more fire-resistant than existing materials, according to US researchers. Many of the polymers now used in walls, seats, windows and other parts of the aircraft decompose to produce flammable gases.

Scientists at the University of Massachusetts and the Federal Aviation Administration in the US have identified a polymer, polyhydroxyamide (PHA), that tends not to decompose when heated.

The small proportion that does decompose is converted to water and another fire-resistant polymer. Researchers are also looking for other applications for PHA, including military uniforms.
American Chemical Society: US, tel 202 8724445; e-mail y_marsh@acs.org

Vanessa Houlder

Medeva

Since 1996 Medeva has made and continues to make the appetite suppressant phentermine, not fenfluramine as reported on March 29. Fenfluramine and dex-fenfluramine were voluntarily withdrawn from the US market in 1997. Phentermine has not been withdrawn from the market.

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CINEMA NIGEL ANDREWS

A visit with the loony tunes

I was eight minutes late for *Tea With Mussolini*, even though the trains ran on time. A confusion over venues got me to the Empire Leicester Square just as Dames Judi Dench and Maggie Smith and Lady Joan Plowright-Olivier were holding forth about life, art, freedom and Il Duce. They do *this*, I soon realised, throughout the film, with short intervals for Cher and Lily Tomlin to do so. Franco Zeffirelli's funny, old-fashioned, handsome, garrulous movie is based on his own life as a war child tossed about among opinionated Anglo-American surrogate mums. It explains a lot.

It explains, and helps us forgive, his *Endless Love*, *Brother Sun Sister Moon* and other schmaltzathons. If he really grew up as this pass-the-parcel tot among twilight-imperial prima donnas, he is entitled to a movie career that has alternated between beauty (*Romeo and Juliet*, *Hamlet*, *Otello*) and wistful balderdash (much of the rest).

Here his autobiographical alter ego is the illegitimate Luca, played at different ages by Charlie Lucas (child) and Baird Wallace (teenage resistance fighter), who loses his mother in what Lady Bracknell – of whom this film has a whole collection – would call a misfortune. Carelessness follows in the boy's inability to stay with any one US/UK diva for long, being regularly dropped from the plot by screenwriters Zeffirelli and John Mortimer in order, we assume, to make more room for the stars.

These come in the category known to cinephiles as Siabbsg: seen it all before but still glorious. Dame Maggie flutes and quivers as the team leader who says "Shall I be mother?" to Mussolini, only for the dictator later to betray his promise to look after the ex-pats.

Dame Judi ("I have drunk deep of the wine of *Firenze*") saves priceless frescoes while Lady Olivier *is* a priceless fresco: those gobstopper cheeks, that dimpling twinkling smile. And heiress-socialite Cher and archaeologist Lily Tomlin are the straight and gay options of American femininity, the one a vision in fur or organdy emoting as if all the world were an Oscar ceremony, the other dressed like Harrison Ford in "Indiana Jones Goes Lesbian".

TEA WITH MUSSOLINI
Franco Zeffirelli

PLUNKETT AND MACLEANE
Jake Scott

BEYOND SILENCE
Caroline Link

THE FACULTY
Robert Rodriguez

A BLAST FROM THE PAST
Hugh Wilson

THE NIGHT OF THE HUNTER
Charles Laughton

There are innocent filmgoers out there who have a right to take all this seriously. However, looked at closely, it is clearly an advanced case of loony tunes. Did British women really go about Florence barking at blackshirts, taking tiffin in art galleries and chaining themselves protestingly to towers?

Did the US really allow someone as glamorous as Elsa (Cher) to escape a Hollywood movie career? And was Franco Zeffirelli – our dear, soppy, lovable Franco – really the life and soul of the Resistance? If this is true, tea in the Uffizi all round and I'll be mother.

*

The title highwaymen of *Plunkett and Macleane* actually existed if you believe the film's press notes. I believe them because in April Fool's week I decline to be gulled into research. No doubt the first, spelled Maclaine, was hanged in 1750 for services to daylight robbery. No doubt the second was a bankrupt apothecary turned stand-and-deliver specialist.

What does this matter, though, to audiences? They have to watch and suffer the movie. Director Jake Scott evidently learned Great Imagery from his father Ridley – mist-wreathed graveyards, cobblestones slick with *noir* rain, landscapes opalescent with first dawn – while also learning from dad and uncle Tony (*Top Gun*) how to ruin that imagery with fancy cutting. The film behaves like a pop promo with the runs, possibly from ingesting too much chilli-hot music from the anachronistic likes of the Tiger Lillies and Craig Armstrong.

As screen entertainment, it sounds better than it plays. Acted by Robert *Full Monty* Carlyle and Johnny Lee *Trainspotting* Miller, Plunkett and Macleane have all the debonair charisma of two woodcuts hung out in the rain. They rollick limply through 18th century England wooing damsels (Liv Tyler), humbling judges (Michael Gambon), contracting the pox and cracking jokes. But their most strenuous efforts fail to make a legend from two lifetimes, which in duration is what the film feels like to watch.

Caroline Link's *Beyond Silence*, a Best Foreign Film Oscar nominee last year, is majestic in comparison. Rather than treat filmgoers as jaded wraiths who need their eyes and ears violently assaulted to receive any sensation at all, this German film explores a world where deprived senses vibrate at the smallest hint.

Heroine Lara, played as small girl and teenager by Tatjana Trieb and Sylvie Testud, is the music-loving daughter of deaf-mute parents. Can she break the bonds that tie her – to their world of sign language, to their dependence on her to relay everything from telephone calls to a description of birdsong, to Dad's resentment of all sounds that exclude him – and create her own life?

The girl takes up the clarinet and moves in with a musical aunt in Berlin. She breaks free, but we never sense that that break is complete or even should be. This is not *Shine* with its pantomime metamorphoses and Manicheism – brutal Dad bad, sensitive Sonny good – but a film honouring Renoir's great dictum "Everyone has his reasons".

Beyond Silence is as much about the emotionally unsaid, about the half-guilty desires and motivations we all carry through each day, as about the literally un-sayable or-hearable. And though its language is naturalism it never shuns the poetic. The opening image of skaters seen from beneath the ice on a pond captures, more eloquently than a thousand words or hand-signs, the scary otherness of a soundless netherworld.

Is there life after post-modernism? The horror film *The Faculty* (opening next week) is so arch and intertextual that you might as well leave your belief-suspension equipment at home. You need only know that something slithery and extra-terrestrial is taking over Hokum High School (not real name) and "spot the movie reference" is the game of the day.

Practised genre-pasticheur Robert Rodriguez (*El Mariachi*, *Desperado*) directs. The cast includes Piper Laurie of *Carrie* and Robert Patrick of *Terminator 2*. And Kevin *Scream* Williamson wrote the script which, when not being owlishly allusive, can sometimes be funny. I liked the girl who rejects a kiss with "These are Estee Lauder lips, they take 72 minutes to apply" and the boy who rejects athletic activities with "I don't think a person should run unless he is being chased".

What would we do without Christopher Walken? Like a joker in a pack or a blank in Scrabble, he can "be" anything. In *A Blast From the Past*, he plays, with a mad but winking wit, the scientist who whisks his family into a D-I-Y luxury bunker during the Cuban crisis.

Convinced of apocalypse he keeps them there for 35 years, by which time Sonny (Brendan Fraser) is old enough to go up and explore 1990s California. Cue hilarity, urban dystopia and Alicia Silverstone as a sassy love interest. Hugh Wilson's film is funny for a while (with Walken in charge), quite funny for a second while, but runs out of wiles by Act Three.

You must see *The Night of the Hunter* if you haven't. This, too, has spent 35 years in incubation. Charles Laughton's lone directing venture, made in 1954, still has a spooky greatness. Mad preacher Robert Mitchum; two children on a river; animals as visual chorus; crime, vengeance and pursuit. It is the American dream or nightmare, seen through a lens surreally by an eccentric Englishman.

Divas at large in Italy: Joan Plowright (left) and Cher in 'Tea With Mussolini'

Simon is just too cute for words

LONDON THEATRE
ALASTAIR MACAULAY
The Prisoner of Second Avenue
Theatre Royal, Haymarket

Everything is of a piece in the West End premiere production of *The Prisoner of Second Avenue*. The actors are perfect for the play, the play is perfect for the actors, and the audience is perfect, too – on press night, laughing canned laughter bang on cue. To round off the perfection, the actors are Richard Dreyfuss and Marsha Mason – who were even more perfect just over 20 years ago, in the movie of *The Goodbye Girl*. That was written by the celebrated Neil Simon, and so was *The Prisoner of Second Avenue*.

The latter was first produced in New York in 1971: but it could have been written – Simon has recently said – about the New York of 1999. Dreyfuss and Mason and Simon all together again! And Dreyfuss and Mason making their West End debuts! To those of us now middle-aged folk who laughed and cried our way through *The Goodbye Girl* when we were young, what could be more perfect?

I alone – crabby, ungrateful – dissent from this perfection. What Simon and Dreyfuss and Mason are perfect at is being cute. Simon chooses here to be cute about a middle-aged man's unemployment and nervous breakdown: Simon must be a kind man: this middle-aged character, Mel Edison, is so infuriatingly selfish that I soon wanted someone to clobber him – but no, Simon just makes him cute.

Much of the comedy rests on how Mel is irritated by the New York life: by noisy neighbours, by traffic, by garbage, by over-hot summers and over-cold air conditioning. From the opening lines on, Simon weighs down the play with wisecracks, gags so gratuitous that over half of them could be excised and the plot would be unchanged. The two acts have three scenes each, which take us through six months and through the arc of Mel's nervous breakdown and recovery.

He is, unfortunately, as infuriatingly selfish at the end as he was at the beginning, but Simon wants us instead to notice how much better he is at dealing with his life and with the irritations of New York life.

I – like Mel's neighbour – feel, however, that New York life would be less than half as irritating were Mel not a part of it. One of the big-league jokes is when his upstairs neighbours pour cold water over him as he stands on the balcony. Ho ho! I alone – crabby, ungrateful – wanted that water to be boiling.

Dreyfuss and Mason onstage go in for forms of extremes of cuteness that would, surely, not be allowed even in Hollywood. Nor, usually, in the West End. What *The Prisoner of Second Avenue* feels like, curiously, is TV: a comedy series on TV. If you enjoy *One Foot in the Grave* and *Friends* more than I do – and very many do – you may enjoy *The Prisoner of Second Avenue* more than I.

Still, it is a shock to see just how badly Dreyfuss, in particular, mugs, how he addresses his reactions to the audience, how he exaggerates those reactions. And how he and Mason wait for the laughs! The cutest thing of all is the choreographed curtain calls, which become a kind of laugh-in of mutual adoration between these perfect actors and this perfect audience.

A bright and guilty secret

NEW YORK THEATRE
BRENDAN LEMON
Snakebit
Century Theatre, Off-Broadway

Los Angeles has long been the city that American intellectuals love to hate, with almost every diatribe rehearsing the same litany of top talents who have floundered there: Fitzgerald and Faulkner, Brecht and Mann, and of course, Orson Welles, who for much of his life couldn't be bothered to live according to Hollywood's ethos of seduction and defeat. Welles once called the city a "bright, guilty place", a description that aptly applies to David Marshall Grant's new play, *Snakebit*.

Bright light pours in through the windows of the production's unit set, approximating the feel of the semi-Spanish bungalows that line the streets of Hollywood. You wonder how anyone could ever be unhappy in such a setting.

Then Michael, a mid-30s social worker who is leaving the house because he can no longer afford the rent, begins to vent his anxieties, and you realise there is trouble behind the palms.

Michael, believably embodied by Geoffrey Nauffts, grew up in Connecticut and moved to New York to become an artist. Like many creative New Yorkers, though, he eventually went west to escape the collapse of his career. He had been a dancer who was noticed by one of Balanchine's assistants but was too unhappy with what he calls ballet's "fascist" leadership.

As the play opens, we learn that his love life has collapsed, and old friends from New York, a married couple named Jonathan and Jennifer, have come to visit. Michael's emotional baggage soon becomes as cluttered as the belongings piled high on his sitting room floor.

Though he is gay, he and Jennifer had once been lovers, and the disclosure of this fact to Jonathan in Act Two, along with its potential consequences for the couple's sickly daughter, provides *Snakebit* with its suspense. The playwright unravels this situation with deftness, and while he does not avoid a few heavy-handed touches there is no question that the trio's travails are almost always absorbing.

The play's compulsive watchability comes as a surprise, given that its characters are all so self-absorbed you may wonder whether you will survive two hours in their company. In fact, Jonathan, who has come to LA for an audition, is so relentlessly narcissistic (his wife calls his interactive style "a series of pre-emptive strikes") that you may find it hard to believe that he and the saintly Michael would have remained friends for so long.

Grant, however, whose heartbreaking performance as Joe Pitt in the Broadway production of *Angels in America* long ago suggested his profound understanding of unlikely masculine connections, has the intelligence and the sensitivity required to make them plausible.

Jonathan, whom David Alan Basche plays with Malkovichian gusto, is intended, perhaps a little too deliberately, to offend liberal sensibilities. Whether Jonathan is caressing the memory of his father – whose motto was "Money is the report card of life" – or attacking his friend when he learns the play's sexual secret, Basche is wonderfully provocative.

Although *Snakebit* has sitcom wit, Grant has constructed his story more like a David Hare drama of ideas, replete with the clash of humanitarian and hard-nose viewpoints. Unlike Hare, however, Grant does not stack the deck unfairly in favour of either side.

INTERNATIONAL Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Dutch National Ballet: programme combining the Dutch premiere of Acts of Light by Martha Graham, with the world premiere of Krzysztof Pastor's Bitter Sweet, and Balanchine's Symphony in C; Apr 2, 3, 4, 6

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
Shakudo: display of Asiatic objects highly popular in Europe and imported in large quantities by the Dutch East India Company. Mainly they were luxury goods such as sword hilts and tobacco boxes; to Apr 5

BARCELONA

EXHIBITION
Museu Picasso
Tel: 34-3-319 6310
Picasso - Engravings 1900-1942: temporary exhibition with more than 250 works from the Musée Picasso in Paris. It presents Picasso's engravings as a diary, a daily examination of his emotions: it follows the different themes and techniques that inform the artist's work; to Apr 4

BERLIN

CONCERTS
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by R. Strauss; Apr 3
● Chicago Symphony Orchestra and Chorus: concert performance of Moses und Aron, by Schoenberg, conducted by Pierre Boulez, with a cast led by David Pittman-Jennings and Chris Merritt; Apr 1
● Staatskapelle Berlin: conducted by Pierre Boulez in Mahler's Das Lied von der Erde, with tenor Jon Villars and baritone Roman Trekel; Apr 4
● Staatskapelle Berlin: conducted by Daniel Barenboim in works by Beethoven and Wagner, with soloists including tenor Jon Villars; Apr 5

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Cinderella: staging by Roberto de Oliveira. Kevin McCutcheon conducts Prokofiev's score; Apr 3

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Der Fliegende Holländer: by Wagner. Conducted by Rudolf Piehlmayer in a staging by Götz Friedrich; Apr 1
● Matthäus-Passion: Christopher Hogwood conducts Johann Bach's and Felix Mendelssohn's score; staged by Günther Uecker, Götz Friedrich and Dietlinde Calsow; Apr 2, 4
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
● Lohengrin: by Wagner. Conducted by Daniel Barenboim in a staging by Harry Kupfer; Apr 4
● Tannhäuser: by Wagner. Conducted by Daniel Barenboim in a staging by Harry Kupfer; Apr 2

BUDAPEST

EXHIBITIONS
Hungarian National Gallery
Tel: 36-1-375 7533
Jozsef Rippl-Ronai: most of the 250 pieces depict this famous Hungarian post-impressionist's hometown, although it also includes forays into decorative arts. His first exhibition since 1961; to Sep 6
Museum of Applied Arts
Tel: 36-1-217 5222
Zsolnay: the ceramics of the Zsolnay factory in Southern Hungary are said to rank alongside Tiffany glass. Shows 200 objects from jewelry to architectural ornaments produced by the factory which was founded in 1853; to Sep 27

CHICAGO

CONCERT
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: presented as part of the Great Performers Series in works by Mozart and featuring Alfred Brendel on piano, Katharine Gowers and Lucy Jeal on violin; Apr 6

HOUSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-713-639 7300
www.mfah.org
Art at Work: Forty Years of the Chase Manhattan Collection (shared with the Contemporary Arts Museum). Display of 77 works which chart the major movements in postwar American and European art. Organised chronologically the show at the Museum of Fine Arts includes works by Calder, Stella and Beuys; while the Contemporary Arts Museum features artists of the 1980's and 1990's including Basquiat, Cragg, Lichtenstein and Sherman; to May 2

LISBON

EXHIBITION
Centro Cultural de Belém
Tel: 351-1-361 2400
Alvar Aalto in Seven Buildings: Centenary exhibition of the Finnish architect Alvar Aalto; until May 16; to May 16

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
Orchestra of the Age of Enlightenment: this period instrument ensemble makes a welcome return starring Nathalie Stutzmann (contralto) and directed by Catherine Mackintosh in works by Corelli and J.S. Bach; Apr 6
Queen Elizabeth Hall
Tel: 44-171-960 4242
Camerata Academica: in works by Mozart, with violin soloist Isabella Faust, and viola Tabea Zimmermann; Apr 7
Royal Festival Hall
Tel: 44-171-960 4242
Philharmonia Orchestra: conducted by Vladimir Ashkenazy in works by Bernstein, Gershwin, and Rimsky-Korsakov; Apr 7

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new staging by Ian Judge; Apr 3
● Salome: David Atherton conducts Richard Strauss' opera, starring Vivian Tierney as Salome in David Leveaux's production; Apr 1, 7

LOS ANGELES

CONCERTS
Music Center: Dorothy Chandler Pavilion
Tel: 1-213-365 3500
www.laphil.org
● Los Angeles Philharmonic: conducted by Antonio Pappano in works by Honegger, Liszt, and Mendelssohn; with Jean-Yves Thibaudet on piano; Apr 1, 2, 3
● Los Angeles Philharmonic: conducted by Hans Vonk and featuring Lars Vogt on piano in works by Webern, Mozart, and Schubert; Apr 7

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Susannah: by Floyd. James Conlon conducts a new staging by Robert Falls, with a cast led by Renée Fleming and Samuel Ramey; Apr 3, 6
● The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev in a revival of Elijah Moshinsky's staging, designed by Mark Thompson. The cast is led by Plácido Domingo (replaced by Yuri Marusin on Apr 3), Galina Gorchakova and Olga Borodina; Apr 3, 7

PARIS

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Lucia di Lammermoor: by Donizetti. Conducted by Bruno Campanella in a staging by Andrei Serban and Robert Carsen. Apr 1

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
New Japan Philharmonic: Hiroshi Wakasugi conducts in works by Alban Berg and Kurt Weill; with Mari Midorikawa and Michio Tatara as soloists; Apr 5

VIENNA

OPERA
Wiener Staatsoper
Tel: 43-1-51444
Macbeth: by Verdi. Conducted by Simone Young in a staging by Peter Wood, with a cast led by Leo Nucci and Eliane Coelho; Apr 6

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

Lost art restored

The Bank of England governor has to send a letter to the chancellor if inflation deviates by more than one percentage point

DRAFT

April 1, 2007

Dear Chancellor,

It is with regret that I have to report that the UK rate of inflation RPIX (the Retail Prices Index excluding mortgage interest payments) has for some months been below the target rate of 2½ per cent per annum. It has now fallen to 1¼ per cent. As the deviation from the target now exceeds one percentage point I am required to write you an open letter accounting for the deviation and stating what action is to be taken to correct it.

The prospect of inflation falling below 1½ per cent was raised by several analysts as far back as March 1999. The Monetary Policy Committee's own analysis was not incompatible with these outside forecasts. Indeed there have been several reductions in short term interest rates since RPIX first fell a decimal point below target in February 1999. The MPC continued this downward path despite a temporary upward "blip" in inflation as result of the impact effect of the indirect tax increases announced in the 1999 Budget. It would nevertheless appear with hindsight that these reductions were not large or rapid enough.

The reasons for the inflation shortfall are analysed in the last Inflation Report. The weakening of world activity which began with the East Asian, Russian and Latin American crises in 1997-98 proved larger then the Monetary Policy Committee had anticipated. Further problems developed in the emerging economies in the course of 1999. In addition a major private financial institution was forced to seek official assistance from the US Federal Reserve. These external developments contributed to a greater than expected weakening of external demand.

Domestically generated UK demand was also below expectations. The cumulative fiscal tightening was widely welcomed for its contribution to the underlying sustainability of the public finances. But in the short to medium term it had had a dampening impact on consumption – arguably because it was originally unanticipated, but subsequently came to be believed to be permanent. A contributory factor may have been the more durable effects of self-assessment in increasing public sector revenue.

Fortunately the world recession of 1999 proved relatively short. But its impact on inflation in the main industrial countries was sharper than would have been expected in the light of previous experience. A number of countries have experienced deflation in terms of their consumer price indices. There has subsequently been a rapid recovery in world growth, which has been reflected in an annualised rate of growth of real GDP in the UK of 4 per cent in recent months.

This otherwise welcome recovery presents us with something of a dilemma. The normal response to a large undershoot of the target would be to undertake still further relaxations of monetary policy.

Nevertheless a 4 per cent growth rate is higher than almost all estimates of the underlying growth of UK productive capacity. On an optimistic interpretation of the size of the output gap, it would be possible to accept current growth rates for several more quarters without significant risk of a future deviation above target of RPIX. Indeed there are those who argue that as a result of the measures taken to improve the supply response of the economy, the rate of capacity utilisation associated with a steady state of inflation has risen; and the rate of unemployment associated with that state has fallen.

But great uncertainties still surround both the size of the output gap and the underlying UK growth rate. The magnitude and duration of prudent further monetary relaxation is therefore uncertain. The intention of the MPC is therefore to proceed step by step with cautious reductions in short term rates, analysing *ambulando*, with the aid of several models, the effect of the measures taken over our normal two year horizon.

We do however have to warn that in view of the well known time lags, inflation could carry on falling for a while before the full effect of the measures has been felt. It is therefore possible that we may have to write another letter of explanation in three months' time.

Yours sincerely

NOTE BY GOVERNOR'S SECRETARY

The Governor is grateful for the draft letter. But in accordance with his normal practice he intends to rewrite the letter himself.

The background to this imagined draft letter is that the Bank of England is expected to focus at all times on the achievement of an inflation target of 2½ per cent. "Inflation outcomes below target are viewed just as seriously as outcomes above the target."

If the actual rate of inflation departs by more than one percentage point from target the governor is required to write an open letter to the chancellor accounting for the deviation and explaining the steps being taken to deal with it and the period over which inflation is expected to return to target. Should the deviation persist for a further three months a second letter is required.

When these arrangements were announced, the deputy governor, Mervyn King, remarked: "The MPC will have many opportunities to restore the lost art of letter-writing to British life. And it is important to stress that avoiding the need to write such a letter is not the objective of monetary policy."

The deputy governor seemed to be trying to combine the advantages of an inflation range (such as the 1 to 4 per cent range originally put in place in 1993) with the point target which had been set by Gordon Brown. Mr King went on to explain that in the face of "shocks" the MPC would be able to adopt a gradualist strategy for returning to target. Unfortunately, despite his words, the overwhelming mass of political and financial opinion continues to regard all deviations from the target as abject failures.

People might wonder why 1 or 1½ per cent inflation should be harmful, especially as we have have been lectured on the evils of inflation for decades. If inflation is bad, surely the less of it we have the better.

The reasons for the disapproval of very low rates of inflation can only be understood against the climate of opinion two years ago, when the present policy framework was devised. Given the long inflationary experience of the UK and other countries, most officials and economic advisers could not then imagine near-zero inflation except in the context of severe recession.

By putting a downward as well as upward limit on inflation, the chancellor therefore believed that he could prevent policy becoming too restrictive and also exercise a stabilising effect on real activity.

Nevertheless he was relying on a theory with only temporary and local validity. The correct and more basic theory links recessionary pressures not with the *level* of inflation but with its *rate of change*. One can envisage all sorts of situations in which 1 per cent inflation could be combined with rapid growth.

The writer of the governor's draft letter has got his knickers in such a twist because the hypothetical situation is one of rapid recovery; and output may be rising too quickly rather than too slowly. And reference to an inflation forecast related to a target, fixed when inflationary expectations were much higher than they have since become, is no longer a helpful guide to policy.

The moral is to be open about objectives and not to try to achieve them by some back door, especially when that back door depends on some hazardous and time bound theory unlikely to survive in changed conditions.

LETTERS TO THE EDITOR

Investing with confidence in Latin America

From Mr Brendan Connell.

Sir, I must take exception to the Lex comment of March 25, regarding the attempted takeover of Enersis of Chile by Endesa of Spain.

Since 1982, my company has worked with electric utilities throughout Latin America and been involved in the privatisation of the electric utilities in countless countries. All the main utilities (with the exception of Brazil) are already in private hands. The ones that are not are either "basket cases" that no one wants or waiting till interest rates come down.

The capital needs of solid Chilean electric utilities are modest and the internal cash generation is enough to meet the requirements of their investments in Argentina, Peru, Bolivia and Brazil, to name a few. These are well-managed companies that manage to get "blood out of a stone" when it comes to capital investments.

Endesa saw a way to milk these companies for the benefit of Spain, not Latin America. The "premium" it offers would be small indeed if the interest rates had not been pushed up by the "Asia crisis" first and then the "Russian meltdown" second. Most Spanish investments in Latin America resemble the "market opening" moves of Cortez and Pizaro, the first Spanish "investors" in the region. The unions have reason to oppose Endesa due to the methods the Spanish use to milk more dividends out of their investments.

Investors in Latin America should not worry. It is best to know the companies and the environment they are working in before investing, but the region as a whole is one of the most promising in the world.

Brendan Connell,
president,
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PO Box 2051,
Wakefield, MA 01880, US

Japanese need to rely less on interpreters

From Mr Shijuro Ogata.

Sir, Following Paul Abraham's comments on the ability of the Japanese to speak English ("At a loss for words", March 12), I would like to express my serious concern about the reluctance, if not inability, of many leading Japanese in politics, government and business to speak English, despite the fact that they must have studied English at school for years and that quite a few of them must have spent some years in English-speaking countries.

Their reluctance must be based on several factors, such as laziness caused by the easy availability of interpreters, some arrogance or even nationalism, and the still-remaining anxiety of those who can speak English not to be regarded as "too westernised".

Such reluctance has clear disadvantages. Expressions in Japanese are often ambiguous. Since professional interpreters are obliged to translate vague expressions literally, foreigners can be easily confused. If leading Japanese speak by themselves, they have to express their views more logically, and thus they can be better understood even if their English is much poorer than that of interpreters.

By relying too much on interpreters, Japanese tend to be isolated at international gatherings. Despite Japanese wishes to be a bridge between east and west, the non-Japan east has already established closer relations with the west through the English language, without Japan's intermediary, as seen in the Asia-Pacific Economic Co-operation and the Asia-Europe meeting.

For leading Japanese to speak English by themselves is the key for Japan not to go back into isolation.

Shijuro Ogata,
3-29-18 Denenchofu,
Ota-ku, Tokyo 145-0071

Whole truth about Sweden's smorgasbord-raiders

From Mr Martin Orrbeck.

Sir, Tim Burt is, of course, giving your readers the truth about Sweden ("Raiding the smorgasbord", March 26). But is it the whole truth? I believe it is not.

First, the high level of foreign direct investment Sweden is reporting is largely due to foreign acquisition of Swedish companies, not investments in new productive assets in the country.

Second, when describing the corporate tax rate, one must bear in mind that Swedish shareholders are taxed on dividends received. This changes the picture of the total tax on corporate profits considerably. Tax on dividends and capital gains for Swedish residents should also be borne in mind.

Mr Burt's report also gives rise to the question of how a special income tax rate for foreign specialists will stop young Swedes from moving to other countries.

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Decommissioning mindsets

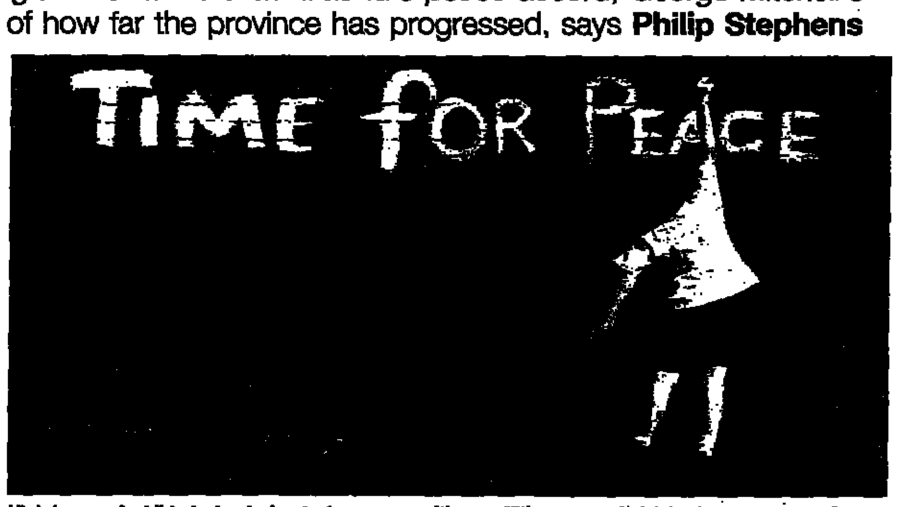
Despite the current gloom over Northern Ireland's peace accord, George Mitchell's book is a reminder of how far the province has progressed, says **Philip Stephens**

One year on, and the euphoria is giving way to fatalism. Last year's Good Friday agreement promised to map Northern Ireland's route from violence to democracy, from sectarianism to pluralism. It was an accord built on ambiguities. Ultimately, everyone was satisfied because no one was entirely satisfied. In the manner of such compromises, it represented a triumph of political will over fine print. The question now is whether the parties to the agreement can rediscover that will.

George Mitchell's account of the frustrating and often dangerous process that led to the accord arrives, therefore, at a propitious moment. Mr Mitchell, the former US Senate majority leader, arrived in Northern Ireland at the start of 1995. At Bill Clinton's request, he was to spend a few months setting up a conference to attract US investors to the province. In the end, he stayed for more than three years; the last two as chairman of the multi-party talks that eventually delivered the agreement.

His book delivers a sense of *déjà vu*. The issue currently threatening to destroy the peace process – the decommissioning of IRA weapons – has vexed it from the outset. Almost from the moment the Republicans called their first ceasefire in the autumn of 1994, the question of if, how and when they should surrender their guns and explosives has dogged and occasionally derailed negotiations.

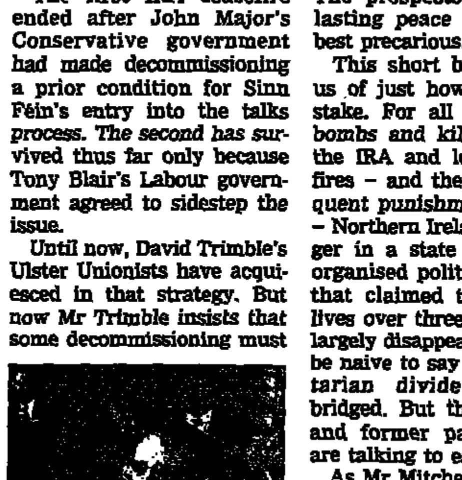
Understandably enough, the surrender of weapons was cast early on as the acid test of the IRA's good faith. If, as their political leaders in Sinn Féin declared, the war against British rule was over, then why not hand over, or at least destroy, some guns? How else could the democratic parties with which Sinn Féin now wished to engage in shaping a new political settlement for the province be persuaded of its sincerity? After all, the IRA had previously proclaimed it would promote Irish unity with the ballot box in one hand and an Armalite in the other.



High hopes: A child playing in front of a more positive graffiti message in Ulster last year Reuters

The first IRA ceasefire ended after John Major's Conservative government had made decommissioning a prior condition for Sinn Féin's entry into the talks process. The second has survived thus far only because Tony Blair's Labour government agreed to sidestep the issue.

Until now, David Trimble's Ulster Unionists have acquiesced in that strategy. But now Mr Trimble insists that some decommissioning must precede Sinn Féin's entry into the new Northern Ireland executive to be established under last year's political settlement. Gerry Adams, the Sinn Féin president, is equally adamant that he cannot deliver what republican folklore would deem surrender. Unless Mr Blair and Bertie Ahern, the Irish prime minister, can once again find a route around the roadblock, the settlement will be scuppered.



MAKING PEACE
George Mitchell
Price $25
Knopf

The prospects, then, of a lasting peace would be at best precarious.

This short book reminds us of just how much is at stake. For all the sporadic bombs and killings during the IRA and loyalist ceasefires – and the brutally frequent punishment beatings – Northern Ireland is no longer in a state of war. The organised political violence that claimed thousands of lives over three decades has largely disappeared. It would be naive to say that the sectarian divide has been bridged. But the politicians and former paramilitaries are talking to each other.

As Mr Mitchell puts it: "It doesn't take courage to shoot a policeman in the back of the head, or to murder an unarmed taxi driver. What takes courage is to compete in the arena of democracy, where the tools are persuasion, fairness and common decency".

It is hard to imagine that Mr Trimble will ever like Mr Adams. Why should he? But that the leader of mainstream Ulster unionism is ready to talk to the most prominent figure in Sinn Féin/IRA is powerful evidence, despite the present uncertainty, of how far the province has progressed.

Mr Mitchell recounts that soon after he arrived in Northern Ireland he was told that to understand the place he had to appreciate that people would "drive 100 miles out of our way to receive an insult". It was good advice. Through days of often futile talks, he saw at first hand the depth of the sectarianism.

Generous in his assessments of Mr Trimble, John Hume, the leader of the mainly Catholic SDLP, Mr Adams and loyalists like David Irvine, Mr Mitchell cannot bring himself to show the same equanimity towards Ian Paisley and Robert McCartney, the leaders of the two, virulently sectarian, smaller unionist parties. It was their walk-out from the nego tiations, he concludes, that made the Good Friday deal possible.

Though scholars of the peace process will find little new in Mr Mitchell's account – as he says himself most of the detail was leaked at the time – it does remind us of the Byzantine complexity of it all.

The Good Friday accord is built on three pillars – a new relationship between Dublin and London, a new relationship between the Irish Republic and the province, and a power-sharing assembly and executive in Belfast. Each supports the others.

The real strength, though, lies in the framework that politics provides for the building of mutual trust. People who talk to, even shout at, each other find it a lot harder to kill each other. What Northern Ireland needs is trust.

The decommissioning of IRA weapons would help build that trust. But it should not be a precondition. As Mr Mitchell says, durable peace and reconciliation imply more than the destruction of a few (easily replaceable) weapons: "What is really needed is the decommissioning of mindsets".

FINANCIAL TIMES

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Thursday April 1 1999

Deliberate use of force

Nato has rejected President Milosevic's offer to pull back some of his troops from Kosovo in exchange for the allies stopping all of their strikes on his country. Even on military grounds, the offer was patently lop-sided, and Nato was right to brush it aside.

The alliance has responded by broadening the number of its targets. But, as it goes into an eighth day of bombing in a campaign that may last weeks more, it must continue to try to avoid military action that hits civilians, exacerbates the Kosovo Albanian refugees' plight, jeopardises western public support or alienates Serb opinion forever. It is a tall order. But Nato cannot allow Belgrade to get away with its claim that the refugees are fleeing Nato bombs rather than Serb aggression.

Mr Milosevic's proposal confirmed a growing impression that the Yugoslav leader is losing touch with reality. Bizarrely, he was ready to promise a ceasefire last October in order to ward off a threat of Nato air strikes, and yet not when the bombs actually rain down on his country. The other immediate justification for Nato's rejection is that Mr Milosevic's words about taking "peace-loving" refugees back into Kosovo are flatly contradicted by his border guards' actions. They have been removing identity papers from refugees as they cross into Albanian and Macedonia, hampering their chance of ever proving their right to return.

Mr Milosevic's overture came after six hours of talks with Yevgeny Primakov, the Russian prime minister. Quite how Igor Ivanov, his foreign minister, could claim that Russia has thereby made "an important contribution" to resolving the conflict is puzzling. Mr Primakov says he will press on with efforts to find a peaceful, political solution, but for the moment he is on the wrong track. If the main problem with the Yugoslav leader is, as some analysts in Nato believe, that he is surrounded by yes-men who never give him the truth, then the Russian prime minister may have compounded it with his visit to Belgrade. However, Russia is at least not siding militarily with Yugoslavia. And there may be a next time for Russia to use its offices to better effect.

Though their war rhetoric has sometimes ranged to wider goals like deposing Mr Milosevic, Nato leaders must make three minimum demands of Belgrade. First, a ceasefire. Second, a big reduction of Serb forces in Kosovo, from nearly 40,000 now to something like the 4,000 foreseen under the Rambouillet peace plan. Otherwise the hordes of refugees will never feel safe to return to Kosovo. Nor will they feel safe staying, unless Nato leads a peacekeeping force into the province. That must remain Nato's third demand.

Regional muddle

John Prescott says the eight English regional development agencies that begin life today will be "economic powerhouses", helping to increase prosperity, generate wealth and improve the quality of life.

Taken with the regional chambers, comprising councillors and others, that will oversee RDAs, the deputy prime minister says the government is "moving forward the principle of regional democracy". In future, regions could have elected assemblies, if that is what people want.

These are unrealistic ambitions to build on RDAs, which are appointed quangos with limited budgets and powers. The chambers, too, are not powerful: RDAs must consult them but they have no statutory authority. This is far too cautious a step towards regional democracy.

Political expectations in the English regions are likely to be greater than these bodies' capacity to deliver, particularly in the highly charged climate that surrounds the creation of the more powerful Scottish parliament and Welsh and Northern Irish assemblies. The government has compounded the problem by tying the prospect of more local democracy to the economic performance of the RDAs.

The RDAs begin life with goodwill in their regions, making prospects better then they appeared a year ago. At that time there was widespread criticism of their lack of powers. A silly Whitehall turf war resulted in the Department for Education and Employment retaining control of Training and Enterprise Councils, and the Department of Trade and Industry keeping the purse strings for Business Links and larger grants of regional selective assistance.

So far, relations on the ground with Tecs and others seem good. Ultimately, though, the issue of powers must be reopened. Economic development in the regions cannot be held hostage to ministerial vanities. It makes no sense for RDAs to devise strategies for skills, for example, without controlling their implementation. The thicket of overlapping agencies must be thinned out.

Success for the RDAs would be good in itself and could well increase enthusiasm for regional government. The debate about regional democracy should not be dependent, however, on whether or not these unelected quangos work. That is a debate of principle, philosophy and public will. Factors such as the royal commission on House of Lords reform and the public response to Scottish and Welsh devolution may in any case move it at a faster pace. It is time for the government to stop trying to hedge its bets on devolution for the English regions and make up its mind.

Thailand's deficit

That the International Monetary Fund has sanctioned a budget deficit of 6 per cent of gross domestic product in Thailand is a measure of just how far the Fund's attitude has changed since the start of the Asian crisis. Maintaining growth is now the chief macroeconomic aim. How long this growth can last, though, depends on the Thai government's determination to push through financial sector reform.

Thailand's fiscal package, announced on Tuesday, concentrates on measures to boost consumer demand. The sheer size of the measures mean that they should have a reasonable impact on growth, particularly as Thai consumers have endured a lean 18 months when many purchases will have been deferred.

But a consumer spending boom is not enough to create a sustainable recovery, particularly with weak global growth, and the region plagued by overcapacity. And crucially, the economy can only start to return to normal when its huge private debt overhang has been resolved.

The government has been introducing measures to tackle the debt problem, but progress has been slow. A new bankruptcy law was due to be passed last October, but political wrangling delayed it until early this month. This has seriously impaired the banks' ability to clean up their balance sheets, and has given debtors little incentive to repay loans. Bad loans have soared to 46 per cent of total debt.

Meanwhile the government's banking reform programme, announced last August, has met with little success. Banks have been reluctant to accept government money for recapitalisation, as this would mean a large financial penalty (in terms of early provisioning) and the dilution of ownership. Instead, banks have reined in their lending, in an attempt to bring their capital ratios back to acceptable levels.

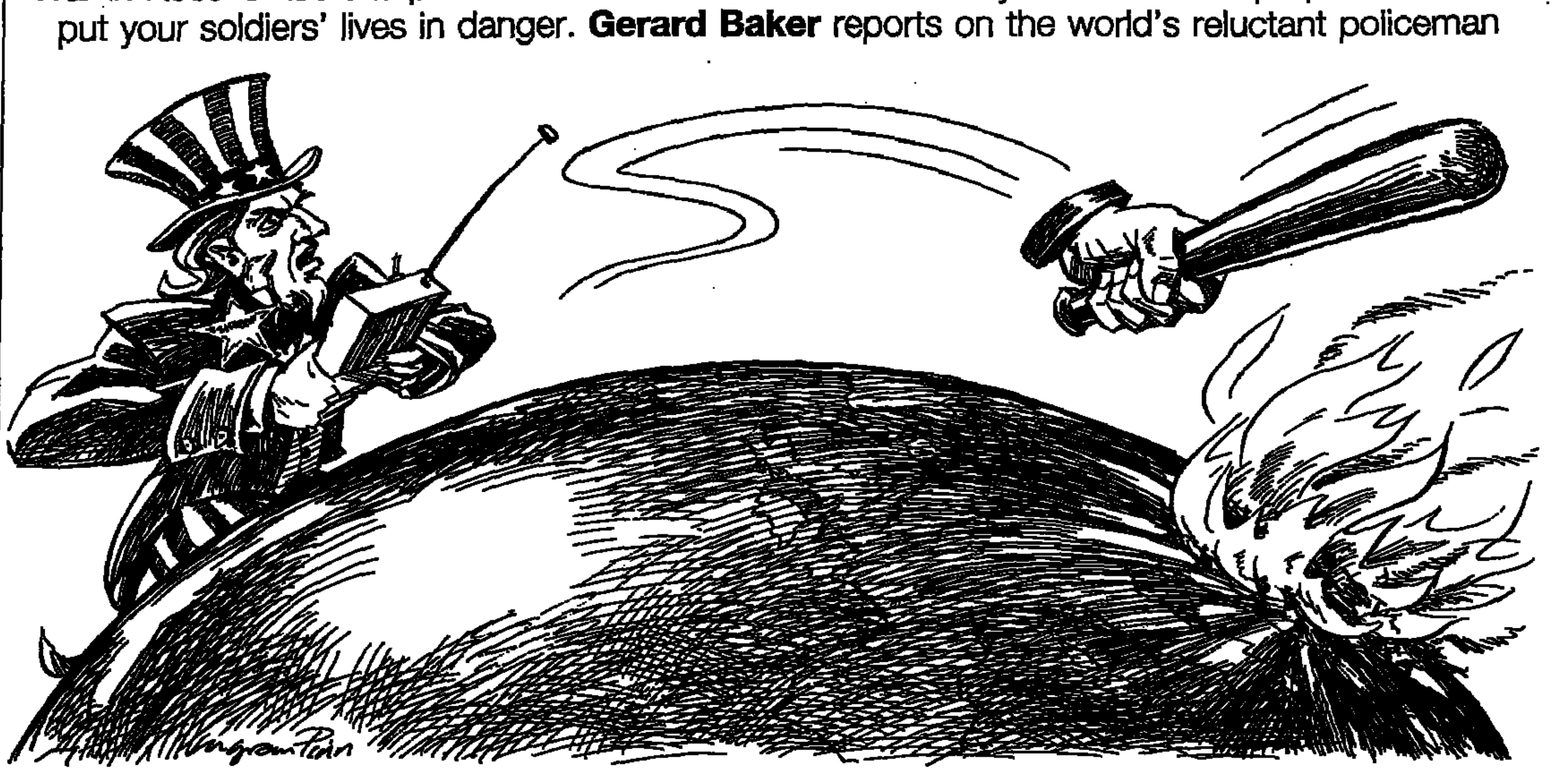
This reluctance to lend means that the fiscal stimulus may not have as great an economic impact as might be expected.

The good news, though, is that the right conditions are now in place for large-scale debt restructuring to take place. Markets are stable, and interest rates low. There is political stability. The bankruptcy law, though untested, is in place. And the demand stimulus will provide the banks with viable new loan opportunities.

But these conditions will not last long. If economic growth sags, reform will become more difficult. And elections due next year could cause further disruption. This latest fiscal package looks like the current government's last-ditch attempt to push for reform and economic growth. If it fails, prospects for recovery will be dealt a severe blow.

Immaculate coercion

War in Kosovo has sharpened the US debate about whether you can be a superpower and not put your soldiers' lives in danger. Gerard Baker reports on the world's reluctant policeman



The US-led Nato bombing campaign against Yugoslavia may have failed so far to achieve most of its objectives, but it has met one critical US goal: not a single American life has been lost in the first week of combat.

In Kosovo – as elsewhere in the Balkans, as in Iraq and Africa, and even in the global fight against terrorism – the Clinton administration's military objectives have once again been heavily constrained by the perceived need to avoid US casualties at almost any cost.

As a result, the Nato operation has so far been largely an extended version of the now familiar "Nintendo War" favoured by the world's only superpower – remote control bombing that minimises, or ideally even eliminates, the risk to American lives.

It is this overriding objective that explains why the US has set its face so firmly against the use of ground forces in Kosovo if Nato fails, as most strategic analysts believe it will, to bomb Slobodan Milosevic into submission. Pentagon and White House officials refuse even to discuss the deployment of Nato troops. "It's not even being considered," says one, tersely.

For the foreseeable future, this reluctance to put soldiers into the line of fire will not erode the US's position as the world's lonely superpower.

From the start, the major European allies in Nato have been clear that Kosovo is too serious a matter for the Europeans to use as a testbed for the "European security and defence identity" – that ambition of some European politicians one day to partner (even rival) the US in some parts of the world. This Kosovan fearfulness is shared even by a country such as France, which has the longest-standing and clearest ambitions for a Europe-only defence.

At the moment, what this means is that if the US will not field ground troops in Kosovo, neither will the Europeans. They were particularly insistent on that point earlier this year when Nato was planning the make-up of its mooted peacekeeping force. There are, however, signs of stirring European concerns about the US unwillingness to commit troops. As the carnage continues, there is a slight indication in Paris that as an absolutely last resort, some European allies might be willing to go in alone on the ground – without US soldiers – if they were assured of total US air support and were faced with a seriously weakened Serb army.

Whether they are really prepared to do that, of course, remains to be seen. All that is clear at the moment is that – for the allies at least – the US is seeking to practise a kind of sanitised warfare that highlights the curious paradox of American foreign policy under President Clinton.

The US enjoys a military superiority over other nations that no country has had for centuries. Its strategic interests dictate that it deploy that power to snuff out threats of instability across the globe.

Yet its refusal to countenance the possibility of human casualties and the use of troops on the ground has led to a series of military-diplomatic failures. Saddam Hussein survives without even the hindrance of weapons inspection; Osama Bin Laden remains at large and from the Balkans to Somalia, the US has failed to use its military might effectively.

Instead of projecting its power to achieve specific objectives, the Clinton administration has developed a much more refined use of military power, now on display in the Balkans. This involves essentially the use of force as a sanction or punishment against international aggressors. Given the human costs of actually stopping Serb aggression in Kosovo, or removing Saddam Hussein, the US now simply proposes punitive action. "We are significantly raising the price to these people of behaving in ways that are unacceptable," says one national security official.

The hope is that the price will prove too high for most would-be aggressors. But, as critics point out, the strategy does not seem to have worked well in most places where it has been tried.

The president's defenders say this constrained approach to foreign policy is simply a recognition of political reality at home. Polls suggest only a minority of Americans think stopping the strife in Kosovo is worth any significant loss of US lives. They are prepared to commit forces when they think US national interests are directly threatened, but not to settle some far-off ethnic dispute in a country most cannot not even place on a map.

When, early in his presidency, Mr Clinton kept US forces in Somalia, sent initially by his predecessor George Bush to make peace between warring factions, there was lukewarm support at home. But when an American soldier was killed and US television viewers woke to the spectacle of his body being dragged through the streets of Mogadishu, public support for the campaign collapsed overnight.

Mr Clinton's freedom of manoeuvre has been further limited by an increasingly sceptical congress. In both main political parties, powerful isolationist tendencies are at work. Post-Vietnam, Democrats have been leery of most international adventures. And last week in the Senate, Republicans – the party of George Bush, Ronald Reagan and Richard Nixon – voted by a two-to-one majority against even the use of air strikes against Serbia.

> **'From day one, Clinton gave foreign policy a very low priority'**

Mr Clinton's supporters also say he has worked to explain the need for US engagement overseas to a sceptical domestic audience. They point out that he has authorised military action on more occasions than any president since the Vietnam War. And they also say that it is the Pentagon, not just the pollsters, who have been behind the "Immaculate Coercion" strategy. As Madeleine Albright once famously remarked to General Colin Powell, the former chairman of the Joint Chiefs of Staff: "What's the point of having all this firepower if you're never going to use it?"

The roots of this geopolitical American reluctance run deep. Americans have rarely been enthusiastic internationalists. Even at the moments of maximum danger for the world this century they were diffident about military engagement.

The ghosts of Vietnam, only partially exorcised by ultimate Cold War victory, continue to occlude the global perspective of most Americans. And that Cold War victory itself has, as Richard Haass, a former Bush administration senior national security official, points out, powerfully undermined popular inclination to fight foreign wars.

"The end of the cold war significantly lowered the stakes in any foreign military venture. It has become much harder to convince people that the survival of our very way of life is at stake in conflicts in eastern Europe, Africa or Asia," he says.

Even the experience of the one great post-cold war military operation has, paradoxically also increased the nervousness among political and military leaders about international engagement. The stunning victory in the Gulf War, where the US, in spite of dire forecasts of tens of thousands of casualties, lost fewer than 200 men in combat, might have been expected to make Americans less reluctant to project their power around the world. But the relative ease of that success has instead cemented the notion among the public that wars can be fought at minimal cost – and greatly raised the potential political cost of fighting a war that is not so easily won.

But the president's critics contend that the US's modern role as the reluctant superpower, in Mr Haass's phrase, owes much to the mishandling of foreign policy in the six years Mr Clinton has been at the White House.

While they acknowledge that Americans have always been nervous about foreign wars, and have become more so since the end of the cold war, they argue that the Clinton administration's diplomacy has been haphazard at best.

"From day one, Clinton gave foreign policy a very low priority", says Lawrence Korb, a national security specialist at the Council on Foreign Relations. "'It's the economy stupid', may have been the reason he got elected," Mr Korb adds, "but it should not have meant the relegation of foreign policy in government."

Indeed, Mr Clinton was elected at least partly because his predecessor was seen as too focused on events overseas, even as the US economy was tumbling into recession. And Mr Clinton's own uncertain relationship with the military has probably not enhanced his leverage in America's global role. His opposition to the Vietnam War, allegations of draft-dodging and the reputed remark in his youth that he "loathed the military" may have had the paradoxical effect that he has been less inclined to argue with the Pentagon when it casts doubt on the wisdom of US engagement overseas.

It would be unfair to accuse Mr Clinton of having ignored foreign policy: in fact, like all presidents, he has become increasingly enmeshed in events overseas as his term has gone on. And few of his critics would dispute the proposition that the president is a genuine internationalist. His support for free trade in a sometimes hostile domestic environment over the North American Free Trade agreement and the WTO and his commitment of US resources, suggest he has been willing to take risks.

But he has clearly been much more effective at mobilising domestic support for these, fundamentally economic international policies, than he has at the more narrowly political or security issues.

And perhaps, most of all, as Mr Haass argues, Mr Clinton does not seem to have tried hard to educate the American public at critical moments in the need for a US global role. "Of course the American people are sceptical of engagement in obscure foreign parts," he says. "But that just increases the need for the president to explain in detail, at length, and with real commitment, why , sometimes, non-engagement is not an option."

Additional reporting by David Buchan

OBSERVER

Hell hath no fury

It was, by all accounts, a glittering affair – apart from the torrential rain. But at the recent nuptials of media mogul-in-the-making Lachlan Murdoch and Australian model Sarah O'Hare the thunderclouds weren't just confined to the sky.

The 20-something son of News Corporation boss Rupert Murdoch finally got hitched in deepest New South Wales, away from the inquisitive gaze of the world's paparazzi. The 70 guests – who did not include Murdoch senior's new girlfriend, TV executive Wendy Deng – were wined and dined in a Moroccan themed marquee before waltzing and tango-ing the night away.

But Anna Murdoch, who's embroiled in a bitter divorce battle with Lachlan's dad, wasn't going to let the assembled friends and luminaries slip off back to their beds without a wry aside aimed at her husband of 31 years. La Murdoch took the stand for her speech with the quip: "Now I have the microphone and one man in the room must be rather nervous." Revenge, you'll remember, is a dish best served by lawyers.

Apple pie

DaimlerChrysler wants to lose its accent. Royally fed up with talk that it's becoming more and more Teutonic, the car company's trying everything to convince investors that it's at least half American.

The merged megalith has been thrown off the Standard & Poor's 500 index because it's incorporated in Germany, and it's lost nearly half of its US investors since Daimler and Chrysler were joined in matrimony in November.

Still, some of its efforts are bearing fruit. Pure-bred German car companies still have conferences of Wagnerian length – occasionally complete with self-immolation scenes – but yesterday DaimlerChrysler clocked in at a zippy two hours.

And joint boss Jürgen Schrempp has traded in his silvery glasses for a pair of horn-rimmed spectacles that would grace the face of any Wall Street broker.

But Observer can't help feeling that there's still a fair-sized fly in the ointment. The buffet didn't include hamburgers and not a drop of Coca-Cola was to be seen.

Dynamic duo

Quelle coincidence that Belgian financier Baron Albert Frère should emerge as a sizeable shareholder in Bouygues, the French group with fingers in the construction and telecommunications pies.

After all, just a week ago the Baron's friend Bernard Arnault, who's made a mega-business out of purveying handbags and champagne to the world, came out as the holder of a 4 per cent stake in the company.

The two men made a big splash in the wine world last year when they teamed to buy Château Cheval Blanc, the most famous St Emilion label, leaving Liliane Bettencourt, France's richest woman, trailing behind in the bidding.

But Frère tells Observer he and his pal go back a lot further than that. "We have known each other for a long time," he confides. "He has children who are practically the same age as mine."

Frère's on the board of LVMH, Arnault's luxury goods leviathan. The pair are even neighbours in the chic resort of Saint-Tropez. "He has a lovely villa on the sea and I've got one inland," rhapsodises the Belgian Baron. But are their pads built by Bouygues? That'd be too much of a coincidence.

Prayer power

It could only be in Colombia. A growing Easter-week industry might put a dent in the profits of the country's flak jacket pushers.

Left-wing guerrillas, right-wing paramilitaries and plain old soldiers are getting on down with a ritual which – it's said – makes them invulnerable to flying projectiles.

At midnight tomorrow, holy men across Colombia's war-torn countryside will charge fat wads of cash to cut miniature fist-shaped figures from special trees and insert them beneath the skin of their customers.

The surgery's complemented by a potent dose of prayer and a promise that immunity from bullets will follow.

Doctors and Catholic priests shun the practice as a rip-off, but tales of miraculous events on the battlefield abound. Still, given the escalation of the country's civil war, Observer hopes believers put on their bullet-proof jackets just in case.

Pretty face

Jill Barad may be seven years older than Barbie, the doll whose fortieth birthday comes this year, but the chairman and chief executive of Mattel seems determined to drag the wasp-waisted womanette into the 21st century.

Mattel's annual report, published yesterday, lifts the lid on with-it 1999 lines such as Millennium Barbie, Generation Girl Barbie and the Working Woman Barbie CD-Rom, this last complete with "print features for letterhead, business cards, labels and other office-themed activities".

After the departure earlier this month of Bruce Stein, Barad's number two, Observer wonders whether those activities include parting company with senior executives.

The Financial Times 50 years ago

Churchill On Technology
Mr. Winston Churchill, speaking before the Massachusetts Institute of Technology, said that industrial production depends upon technology. "It is because the Americans, like the pre-war Germans, have realised this and created institutions for the advanced training on numbers of high-grade engineers that their output per head and consequent standard of life are so high."

End Of The Andes Pact
Buenos Aires, March 31. It is understood that the Argentine Government will formally give notice to the British Government to-day that by virtue of the expiry of the Andes Agreement to-night it will proceed to refund to the United Kingdom the amount by which shipments from the Argentine under that agreement have fallen short of the amount stipulated. One lesson at least has been clearly demonstrated by this experience, that Government are not the ideal protagonists in a bargain about prices and terms of delivery. The Argentine Government is able to interpret the agreement in ways the British negotiators certainly never intended.

FINANCIAL TIMES

THURSDAY APRIL 1 1999

THE LEX COLUMN

Smoke bomb

Litigation worries have returned to haunt the tobacco industry – and this time the threat is from individuals. The $80m in damages granted by an Oregon jury to the *family of a cancer victim, the second big* award in two months, has hit the stocks. Shares in Philip Morris, which lost both cases, have fallen 16 per cent in two days, while RJR Nabisco is down a tenth and BAT off 5 per cent.

The industry has for years faced hundreds *of individual US lawsuits*. But in contrast to claims by the US states, settled last year, these were not seen as much of a problem. Until last month, Big Tobacco had only lost three times, the awards were small and all were overturned on appeal. That may still happen in the latest two cases. But punitive damage awards are growing alarmingly, following bad publicity arising from leaked industry documents. Investors, who had not bargained for this extra fallout after last year's settlement, are voting with their feet.

More than ever, the tobacco sector now divides into two. The first group, exposed to the US, faces not only litigation but *poor fundamentals as price rises hurt* volumes. Despite rock bottom valuations – Philip Morris is on a price/earnings ratio of 10 – these stocks remain risky. Investors should instead concentrate on the *Europeans – such as Imperial, Gallaher*, Tabacalera and Seita – which have few legal worries and a chance to benefit from consolidation.

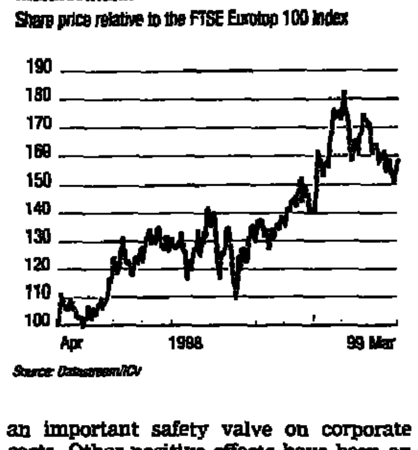
French unemployment

At first glance it looks like a bad week for the French economy. The finance ministry has cut its 1999 growth forecast from 2.7 per cent to 2.2-2.5 per cent, and the jobless figures showed an uptick. *Unemployment remains uncomfortably high at* 11.5 per cent, with the main demon being the social charges that deter employers from taking on permanent workers.

But this blip in unemployment is *actually a symptom of greater flexibility in the* French labour market. It was accounted for by a wave of temporary contracts coming to an end in retailing – seasonal effects – and at companies exporting to emerging markets. About half the jobs created in the private sector over the past three years have been temporary, creating an important safety valve on corporate costs. Other positive effects have been on annual earnings growth – still subdued at about 2 per cent – and on negotiations over the 35 hour week, easing the way for wage freezes and flexible working.

The risk is that a prolonged halt in the decline in unemployment might prompt the government to increase employment *subsidies, which are already high. The* latest example of this are tax breaks to companies adopting the 35-hour week and taking on more people. It is estimated these could cost FFr2bn in *2000. Until France makes it easier for real jobs to* be created, the price of labour flexibility is a stubbornly high level of unemployment.

Mannesmann
Share price relative to the FTSE Eurotop 100 index



Source: Datastream/ICV

Mannesmann

In the excitement over Mannesmann's proposed DM15bn ($8.20bn) purchase of Olivetti's stakes in Omnitel and Infostrada, two fast growing Italian telecommunications businesses, investors have forgotten all about the German company's *stodgy engineering core. As yesterday's* results show, Mannesmann's unglamorous automotive, engineering and tubes sales still account for around 80 per cent of the group's total turnover. Yet their *low rating relative to Mannesmann's* stellar collection of European mobile assets means that they now represent under 20 per cent of its enterprise value on a break-up basis.

No one could dispute that Mannesmann's transformation from industrial group *to fast-growing telecommunications* service provider has created enormous value for shareholders. Just look at its spectacular share price rise: over the last year, it has been the second best *performer in the Eurotop 100, after Vodafone.* But since it still suffers from a 15-20 per cent conglomerate discount there remains value to be released from a Vodafone/Racal-style demerger. The risk is that if Mannesmann does not break itself up, someone else will do it. Hence the bid *premium that has lately crept into the* shares. With its even fancier paper, Vodafone could possibly contemplate a hostile bid. At the moment, however, Mannesmann's engineering businesses, which are Dusseldorf's largest source of employment, serve as a nasty poison pill. Shareholders should demand its removal.

Ireland

This is the sort of problem Germany would die for: the Irish economy is forecast to grow a cracking 9.3 per cent in 1999, according to the European Commission. And inflation, estimated at 2.2 per cent, looks harmless. It is not, though. *House values have soared – up 30 per cent* year-on-year in Dublin. At some point, this will feed through into higher prices. Ireland has been lucky *so far*. A deal between government and unions has *underpinned* wage restraint for the last few years, as has the flow of Irish workers returning to the country. *Mortgage costs* have also fallen dramatically, as interest rates were slashed to squeeze Ireland into the euro-zone.

Nonetheless, the Irish economy and Irish homeowners are heading for pain when the current asset price bubble bursts. The problem is what pin the government can use to administer the pricking. It cannot tighten monetary policy. *Fiscal tightening would have to be* dramatic to hit consumer confidence quickly. It may also upset the basis for further wage deals, as past agreements bought off the threat of big pay increases with tax cuts. Furthermore, fiscal tightening looks hard to justify when the government is actually running a structural budget surplus. So it cannot even argue that tax rises are needed in order to improve the state of public finances. Still, things could be worse. At least the sluggish UK *economy has not fuelled an Irish export boom.*

PROPOSED LAW WOULD ALLOW GOVERNMENT TO IMPOSE LIMITS ON SPENDING

Cardoso pins Brazil's hopes on budget controls

By Geoff Dyer and William Dawkins in Brasilia

President Fernando Henrique Cardoso of Brazil yesterday threw his political weight behind a move to enforce greater budgetary discipline at all levels of government.

The fiscal responsibility law, the *linchpin of plans to reform* the country's bloated public finances, is to be sent to Congress next week.

The proposal would allow the government to impose strict limits on all areas of spending, including on state governors and city mayors, and establishes penalties for those who exceed their budgets.

However, a plan to reform Brazil's complex tax system – a vital part of the government's long-term fiscal reform agenda – would not be passed this year, Mr Cardoso said in an interview.

Itamar Franco, governor of Minas Gerais state, triggered devaluation of the Real in January when he declared a 90-day moratorium on the state's debt repayments to the federal government.

The recent appreciation in the Real has reduced the risk that Brazil would experience a financial meltdown in the short term. However, attention is now turning to the government's longer term plans to reform public spending.

In some of his first public comments since the January crisis, Mr Cardoso said that the impact on inflation from the devaluation had been lower than expected. "Now we must keep the budget under control and not allow a wave of optimism without reality," he said.

The fiscal responsibility law was now the priority, Mr Cardoso said, adding that it should be approved by Congress because it requires only a simple majority vote.

Analysts believe that if the bill is passed without being diluted, it could substantially improve the government's ability to control spending. However, they said it was likely to meet considerable opposition.

Mr Cardoso said that plans to reform the tax system would not be completed this year because of the political complexity of the subject. *"It is realistic to start the discussion* this year and clarify the important steps ahead," he said.

As a result of the crisis, Mr Cardoso said Brazil now had a responsibility to set out a new agenda for Mercosur, the South American trade grouping including Argentina, Uruguay and Paraguay.

"We have to ask if it is compatible to have a fixed exchange rate regime in Argentina and a floating one in Brazil, and if not, what can we do about it," Mr Cardoso said.

The International Monetary Fund yesterday delivered an upbeat assessment of the Brazilian economy's performance, as it approved a $4.9bn tranche of credit as part of its $41.5bn rescue package, **Richard Wolffe writes from Washington.**

Stanley Fischer, acting managing director of the IMF, said as long as the Brazilian authorities maintained a strong monetary policy to keep inflation under control, it was "reasonable" to expect that nominal interest rates would decline.

IMF praises Brazil, Page 8.

Unionists hint at concession in Ulster deadlock over arms

By John Murray Brown in Belfast

The outlines of a possible deal to end the *impasse over paramilitary arms* in Northern Ireland emerged last night as David Trimble, the Ulster Unionist leader and the province's first minister, hinted at a concession to Sinn Féin.

Mr Trimble indicated that his party might allow the IRA's political wing to join the proposed 10-member power sharing executive provided the IRA's political wing gave a "clear commitment" to disarm.

The Ulster Unionists have hitherto insisted the IRA start to disarm beforehand. Mr Trimble said: "What we would like to hear from the republican movement is a clear commitment to ending the war, to decommissioning, to disarming in accordance with the agreement, in the timescale of the agreement – and we want of course for that process to begin in a credible way."

However Sinn Féin last night appeared to be resisting pressures for a deal. Mitchel McLaughlin, the party chairman, said the Unionist *demand was "manifestly impossible* to deliver on outside of the strict terms of [last year's] Good Friday agreement".

As Tony Blair rejoined parties at *Hillsborough for what was likely to* be an all-night negotiation session, a senior official said agreement was "do-able and do-able before Friday".

While difficulties remain to be overcome, the UK prime minister and Bertie Ahern, his Irish counterpart, signalled that "significant progress" had been made to resolve the arms row between Sinn Féin and the Ulster Unionists. Mr Blair said officials were working on "detailed proposals to make it all happen".

Both governments yesterday took heart from the IRA's traditional Easter message, which unlike earlier statements, did not explicitly rule out arms decommissioning. Sean Neeson, leader of the bicommunal Alliance party, said: "I still believe there is a 50-50 chance of a result being achieved."

Agreement would allow the power sharing executive to be set up, paving the way for authority to be formally transferred, restoring limited self rule to Northern Ireland for the *first time in 28 years*.

Mr Ahern indicated there was now "one point [of disagreement] and that is about timing and dates".

Last year's Good Friday accord stipulates that all illegal arms be decommissioned by May 2000, and makes no explicit link between disarmament and the formation of the power sharing government.

But Mr Trimble's remarks pointed to a possible compromise which would *see the IRA undertake to start* the process at a later date while committing itself to complete the destruction of its arms within the 14 month period.

Decommissioning mindsets, Page 16

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"Danseuse au repos" by French artist Edgar Degas, on display at Sotheby's in London yesterday. The painting, which dates from about 1879, is expected to fetch more than $8m at auction in June. Reuters

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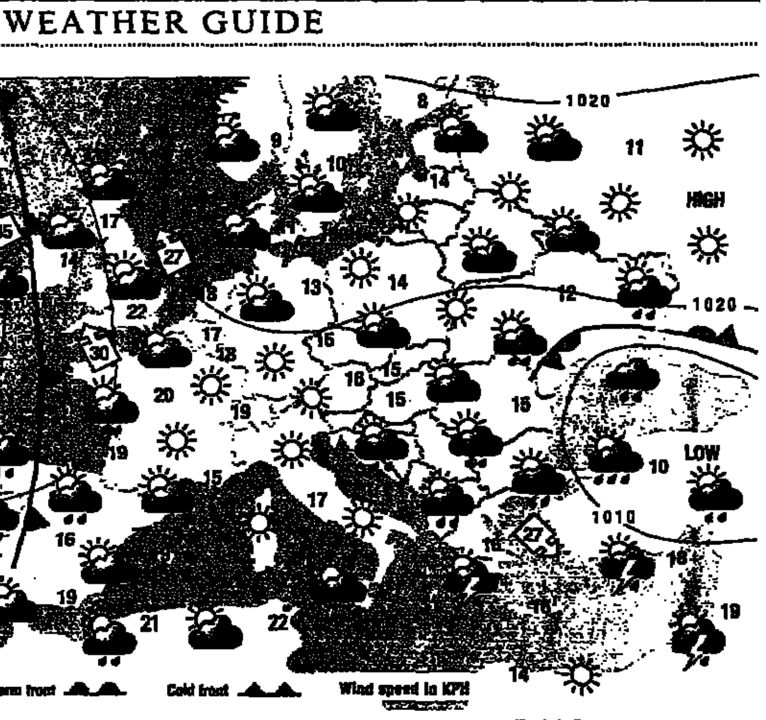
FT WEATHER GUIDE

Europe today

North-western Europe will be dry and *mild with a good deal of* sunshine, but sharp showers are likely to affect north-western France. The Iberian peninsula will be showery though interspersed with sunny spells. *Most of central* and eastern Europe, along with southern Scandinavia, will be fairly mild with some sunshine. Western Norway will have showers and the *occasional longer spell of rain*, while the eastern Mediterranean will have some thundery downpours. The rest of the Mediterranean will be warm and sunny.

Five-day forecast

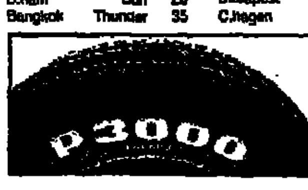
High pressure will build over Iberia *throughout the weekend*, introducing drier conditions. Heavy rain will move into France on Saturday while the eastern Mediterranean will probably remain showery. Scandinavia will turn a little colder before milder conditions *return next week*.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	29
Accra	Fair	32
Algiers	Fair	21
Amsterdam	Sun	16
Athens	Thunder	16
Atlanta	Shower	22
B. Aires	Sun	25
B.ham	Sun	20
Bangkok	Thunder	35
Barcelona	Fair	17
Beijing	Cloudy	12
Belfast	Fair	15
Belgrade	Shower	15
Berlin	Sun	13
Bermuda	Fair	22
Bogota	Shower	19
Bombay	Sun	36
Brussels	Sun	17
Budapest	Fair	15
C.hagen	Fair	11
Cairo	Fair	22
Caracas	Sun	29
Cardiff	Fair	16
Casablanca	Fair	20
Chicago	Fair	19
Cologne	Sun	20
Dakar	Fair	23
Dallas	Fair	25
Delhi	Sun	37
Dubai	Sun	30
Dublin	Shower	14
Dubrovnik	Sun	17
Edinburgh	Shower	14
Faro	Fair	16
Frankfurt	Sun	18
Geneva	Sun	19
Gibraltar	Shower	20
Glasgow	Fair	17
Hamburg	Fair	18
Helsinki	Fair	8
Hong Kong	Fair	26
Honolulu	Fair	28
Istanbul	Shower	10
Jakarta	Shower	31
Jersey	Fair	14
Johannesburg	Fair	24
Karachi	Sun	36
Kuwait	Sun	33
L. Angeles	Fair	17
Las Palmas	Fair	21
Lima	Fair	28
Lisbon	Fair	18
London	Fair	22
Lux.bourg	Sun	18
Lyon	Sun	20
Madeira	Fair	18
Madrid	Shower	16
Majorca	Sun	19
Malta	Sun	18
Manchester	Fair	18
Manila	Fair	33
Melbourne	Cloudy	20
Mexico City	Fair	29
Miami	Fair	28
Milan	Sun	18
Montreal	Fair	12
Moscow	Sun	11
Munich	Sun	16
Nairobi	Fair	27
Naples	Fair	17
Nassau	Fair	28
New York	Fair	20
Nice	Sun	15
Nicosia	Thunder	16
Oslo	Fair	9
Paris	Fair	20
Perth	Sun	27
Prague	Sun	15
Rangoon	Sun	37
Reykjavik	Sun	3
Rio	Cloudy	30
Rome	Fair	17
S. Frsco	Fair	14
Seoul	Fair	19
Singapore	Thunder	31
Stockholm	Fair	10
Strasbourg	Sun	19
Sydney	Thunder	21
Tangier	Fair	18
Tel Aviv	Thunder	19
Tokyo	Fair	18
Toronto	Fair	19
Vancouver	Fair	11
Venice	Sun	17
Vienna	Sun	16
Warsaw	Sun	14
Washington	Shower	20
Wellington	Cloudy	18
Winnipeg	Snow	0
Zurich	Sun	17



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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Olivetti takeover battle hots up
The takeover battle between Olivetti and Telecom Italia, for long a phony war, is starting to get serious ahead of crucial shareholder meetings that will decide the fate of Europe's biggest corporate takeover. Page 22

Oil prices rise above $15 a barrel
World oil prices rose above $15 a barrel in London for the first time since October, continuing a rally that has added $4 to the price of Brent blend in a little over a month. Page 30

Lundberg sparks revival at Elektrim
When rebellious foreign shareholders forced the appointment of Barbara Lundberg last month as chief executive of Elektrim, Poland's biggest industrial group, analysts wondered how quickly an American businesswoman with little Polish could get a grip on such a diverse company. She has got off to a flying start. Page 20

Moody's warns on Japanese debt
Moody's, the US credit rating agency, warned that the financial position of some of Japan's local governments now appeared to be worse than the central government because of their spiralling levels of debt. Page 23

Competition hits US life assurers
The future of the US life assurance business has begun to take shape as the largest mutuals seek initial public offerings. The biggest groups in the industry have set their strategy for coping with unprecedented competition from other financial services companies but this could require them to change their products. Page 20

East Timor hopes for coffee republic
If East Timor succeeds in breaking away from Indonesia its greatest hope for achieving economic self-reliance could be coffee. Page 30

Nordic giants' contrasting fortunes
Nokia and Ericsson, the Nordic region's largest companies, lead the booming cellular telephony market. Yet in the past year shares in Finland's Nokia have risen almost 200 per cent, those of Sweden's Ericsson 6 per cent. Page 40

Thai shares suffer from tax cut snub
Bangkok investors were unimpressed by a $3.5bn package of tax cuts and government spending and shares fell steeply. Page 40

'Unexploited profits' in Brady bonds
A careful examination of the credit quality of individual Brady bonds reveals the potential for "unexploited profits" by using the right trading strategies, according to new research. Page 28

European equities close higher
Most European equity markets closed higher despite a sluggish start on Wall Street and weak economic figures from France. Page 27

Enron makes euro bond debut
Enron, US energy company, made a €400m euro-denominated bond debut. Page 28

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DAIMLERCHRYSLER CHIEF SAYS MARCONI TIE-UP 'SHATTERED DREAMS' OF CREATING A PAN-EUROPEAN DEFENCE COMPANY

Schrempp strengthens opposition to BAe link-up

By Uta Harnischfeger in Stuttgart

DaimlerChrysler, the US-German automotive and aerospace group, yesterday strengthened its opposition to the recent link-up between British Aerospace and General Electric's Marconi, saying it had "*shattered the dreams of creating a pan-European defence and aerospace company*".

The comments, by Jürgen Schrempp, co-chairman, came as the company announced that sales rose 6 per cent in the first two months of this year, from €19bn to €20bn ($21.4bn), compared with the same period last year.

DaimlerChrysler first voiced its opposition in January when British Aerospace announced *its £7bn ($11.3bn) purchase of* Marconi, the defence division of the UK's General Electric Company. At the time, DaimlerChrysler unit Dasa said one of its main objections was that the new BAe/Marconi entity would carry too much weight in an eventual pan-European defence group, possibly at the the expense of German and French interests.

However, Mr Schrempp said: "Now I can only imagine smaller link-ups in partial areas."

He was speaking as the world's fifth largest carmaker, *told investors it would grow* moderately in 1999 and that the integration of the two merged companies was going smoothly, allowing the group to create the promised €1.3bn synergies this year.

"There is absolutely nothing but good news here," co-chairman Robert Eaton said. "But things will take time." Mr *Schrempp added that most* integration projects would be *finalised by the end of 2001,* but that the integration of people and cultures could take as long as five years.

Financial services have already been put under one roof in Berlin and the two companies have started joint research on fuel-cell drives and battery-operated vehicles.

DaimlerChrysler did not explain how it would boost *interest for its shares among* US investors. Nor did it clarify its ambitious plans in Asia, despite forecasting that the company still expected to boost group sales to that region from about 8 per cent to 25 per cent of group sales.

Mr Schrempp said DaimlerChrysler "remains particularly interested in making a jump in the Asian commercial vehicle market". *He added that it may* develop a mid-sized commercial vehicle *for Asia.*

DaimlerChrysler based its forecasts of increasing 1999 sales and operating profit each by 4 per cent on an upbeat outlook for the US and a mixed-to-moderate outlook for Europe. It expected to post €137bn in sales, up from €131.8bn in 1998.

In 1998, DaimlerChrysler increased its net income, *excluding non-recurring items,* by 29 per cent to €5.22bn from €4.06bn.

Observer, Page 17

DaimlerChrysler chiefs Robert J. Eaton, left, and Jürgen E. Schrempp, right, with finance board member Manfred Gentz behind them, prior to the company's press conference yesterday Picture: AP

Ford begins reshuffle at Volvo Cars

By Tim Burt in Stockholm

Ford of the US, the world's second largest automotive group, is to appoint a new chief financial officer and head of marketing at Volvo Cars after yesterday completing the SKr50bn *($6bn) acquisition of* the Swedish carmaker.

The plan is the first sign of a reorganisation at Volvo Cars following its disposal by the Volvo parent company, which intends to use the proceeds to expand in commercial vehicles.

Knut Simonsson, head of marketing of Volvo's car division, has decided to leave the company after 13 years.

The group said Mr Simonsson was leaving for personal reasons. People familiar with the situation said he was "unhappy" at changes in marketing functions ahead of the Ford deal.

Last month, Volvo Cars said two advertising agencies –Forsman & Bodenfors of Sweden and MVBMS of New York *would "globally supervise"* its future marketing.

Separately, Tuve Johannesson, president of Volvo Cars, has begun a search for the vacant post of chief financial officer.

"It is expected to be someone from Ford. It is vital that the executive group has someone who understands how the US company works," said a spokesman.

Mr Johannesson and Mr Simonsson were unavailable for comment.

The reshuffle follows the *appointment of Wolfgang* Reitzle, the former head of *markets and products at BMW,* as the president of a new luxury car group within Ford – comprising Volvo, Lincoln in the US, and Jaguar and Aston Martin of the UK.

Yesterday, Volvo said it had received the first instalment of SKr16bn from Ford for its car division. The group has also received a SKr17.7bn dividend *from its car division as part of* the deal. The payments - to be *followed* in two years' time by a final sum of $1.6bn – have increased Volvo's *estimated* cash reserves to more than SKr50bn.

Volvo's B shares closed unchanged at SKr215.50, valuing the group at SKr94.7bn ($11.5bn).

Three more UK executives top £1m

By John Gapper, John Willman and Elisabeth Robinson

Another three UK company chief executives have broken the £1m remuneration barrier, according to annual reports out yesterday.

At Pearson, which owns the Financial Times, Marjorie *Scardino, chief executive,* received total remuneration of £1.04m ($1.67m) – including a bonus of £545,000 — for the year to December.

Niall Fitzgerald, co-chairman of Unilever, saw his salary rise from £600,000 to £680,000, while his total pay after benefits of £104,333 and a rise in performance-related bonus from £240,000 to £332,000 came to £1.116m — 19.4 per cent up *on the year before. Peter* George, chief executive of Ladbroke, which is changing its name to Hilton, nearly doubled his remuneration to £1.32m, from £745,000 the year before. The reward included £573,000 relating to an incentive plan that matured in June.

Pearson also announced plans in its report for a *long-term incentive scheme for* top executives aimed at increasing their reward if the company performed well. It said this would help it compete with US executive pay levels.

Sir Dennis Stevenson, chairman, said the majority of the company's top executives now worked outside the UK "and their current compensation is *uncompetitive on an international basis*". The news follows *controversy over a pay and* shares package awarded to Jan *Leschly, chief executive of* SmithKline Beecham, that could be worth up to £80m.

Sir Dennis said Pearson, which gained nearly half its sales and profits from the US even before the $4.6bn acquisition of the specialist publishing arm of Simon & Schuster, needed to pay more to "retain outstanding managers".

Pearson is to ask for shareholder approval for its reward plan for senior executives at its annual general meeting on April 30.

The plan includes a "premium option" under which executives will be rewarded if Pearson's share price grows by 25 per cent over three years, 50 per cent over five, 75 per cent over seven, and an "equity incentive" element allocating shares according to growth in free cash flow.

The company announced at its preliminary results that it was allocating £14m to pay each of its 18,000 eligible staff a 3 per cent bonus together with 15 free shares to mark its 20 per cent growth in underlying earnings.

Fines for share 'misconduct'

Morgan Stanley and ABN Amro securities arms censured after London Stock Exchange inquiry

By Clay Harris, Banking Correspondent

Two leading securities firms that accepted orders which included the request to move the price of a share were fined for "misconduct" yesterday by the London Stock Exchange.

ABN Amro Equities (UK), owned by the Dutch bank, was fined £250,000 ($402,000) and *Morgan Stanley Securities,* part of Morgan Stanley Dean Witter of the US, was fined £100,000 for transactions which took place in September and October last year.

The fines are the largest since the exchange fined J.P. Morgan £350,000 in December 1997 after two of the US investment bank's traders tried to manipulate the FTSE 100 index with last minute trading in a handful of shares.

The stock exchange yesterday declined to identify the single share involved in the orders handled by ABN Amro and Morgan Stanley, as the rule breach fell far short of the manipulation involved in the J.P. *Morgan case.*

It is not clear whether any of the trades had any effect on the share price involved, and it is possible the company itself did not know of the investigation.

The transactions, on behalf of an unnamed US fund manager, are also being investigated *by the US Securities* and Exchange Commission. The *SEC would not comment* yesterday.

Morgan Stanley was fined for deals done on a single day, September 2, while the larger ABN Amro fine was based on "unusual trading activity in October 1998".

The spotting of that activity by the stock exchange's real-time surveillance system is believed to have sparked the investigation of other deals done in London for the client, including the September trad*ing by Morgan Stanley.*

The investigations were first reported in January when ABN Amro parted company with a senior New York-based trader in European securities. Another London-based trader has also left the broker, formerly Hoare Govett.

ABN Amro said yesterday in Amsterdam it had co-operated fully with the stock exchange *investigation and had nothing* to add to its statement.

Morgan Stanley said: "Morgan Stanley Securities did not give effect to any improper customer request and all trading effected by [it] for the customer was conducted in accordance with the rules of the exchange."

After its own investigation, Morgan Stanley is believed to have concluded that its role was an *isolated incident which* did not involve malicious *intent.*

The matter was dealt with internally in a way that did not involve any dismissals.

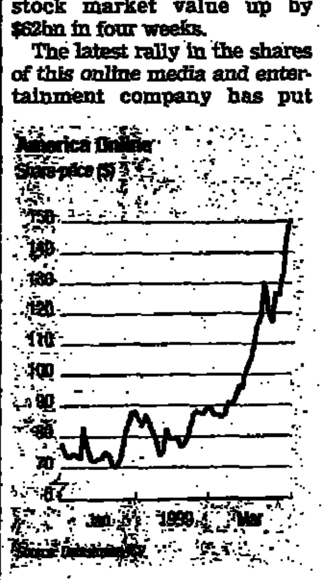
The Financial Services Authority declined to say whether any related investigations were under way under its auspices.

AOL is world's most valuable media company

By Richard Waters in New York

America Online is now worth more than Walt Disney, Viacom and CBS combined, according to investors who have driven the company's stock market value up by $62bn in four weeks.

The latest rally in the shares *of this online media and enter*tainment company has put even its earlier stellar performance in the shade.



However, the company's emergence as the most valuable media and entertainment company in the world – a mantle it took on earlier this year – owes more to stock market enthusiasm for the internet in general than excitement over AOL's own prospects, according to Wall Street analysts.

The latest bout of enthusiasm for AOL has lifted its market capitalisation to about $140bn, compared with the $66bn value *placed* on Walt Disney, the $35bn of Viacom *and the $30bn of CBS.* A stock market reassessment of Time Warner over the past six months has driven that company's value up by 75 per cent, to $87bn.

The latest stampede into AOL's stock reflects an attempt by many institutional investors, *who missed out on* the stock market's first big internet wave at the turn of the year, to make up for lost time.

Many investors have now given up trying to put a value on internet stocks and have decided that they cannot afford to be left out of an industry that has such huge potential, said Abhi Gami, an internet analyst at brokerage William Blair.

That has created massive demand for AOL, which is rare among internet companies in having a large enough "float" of shares trading on the stock market for big investors to accumulate the positions they want, he said.

With 16m subscribers and revenues expected to top $4bn this year, AOL is one of the few pure online companies to produce a profit, earning $134m last year. *However,* its earnings are dwarfed by the combined revenues of $45bn and earnings of $2.5bn that Disney, Viacom and CBS are expected to produce this year. *These companies also boast* some of the most successful web *sites among their hold*ings, including Disney's new Go network, *which it jointly* owns with Infoseek, and Viacom's *MTV site.*

COMPANIES & FINANCE: INTERNATIONAL

INSURANCE LEADING DANISH NON-LIFE GROUP TO STICK WITH UNIDANMARK MERGER PLAN

Tryg-Baltica rejects DKr10bn Codan bid

By Clare McCarthy in Copenhagen and Nicholas George in Stockholm

The consolidation of the *Nordic insurance* industry took a new twist yesterday when Tryg-Baltica, Denmark's leading non-life insurance group, rejected a tentative *DKr10bn ($1.44bn)* takeover bid from rival Codan.

Tryg said it was sticking to earlier plans to merge with *Unidanmark*, the country's second largest bank, to create one of Scandinavia's biggest financial services groups with a market capitalisation of about DKr34bn.

Hugo Andersen, Tryg chief executive, said: "The entire management still believes that the proposed merger with Unidanmark is to the *long-term benefit of share-*holders, customers and employees."

The overture from Codan followed suggestions that *Unidanmark's Dkr8.8bn offer* for Tryg seriously undervalued Denmark's leading insurer.

Late on Monday evening Peter Zobel, chief executive of Codan, invited Tryg to explore a merger. "It would be sensible to combine the two insurance companies, with Codan taking over *Tryg's share capital for* a cash price which reflects Tryg's true value which we put at around DKr200 a share," Mr Zobel said.

This amounts to a total price of about DKr10bn for Tryg, or almost 14 per cent more than Unidanmark's bid of about DKr180 a share.

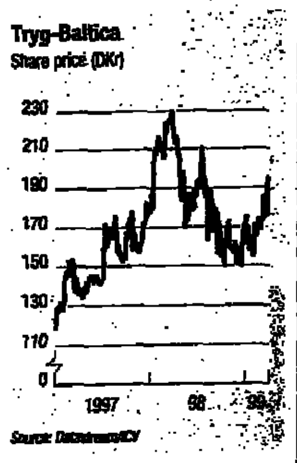
Mr Zobel's invitation, made through an open letter to the stock exchange and the media, also said the proposal had the backing of Royal & Sun Alliance, the UK insurer *that is* Codan's majority shareholder with a 70 per cent stake.

Tryg and Unidanmark shareholders are scheduled *to vote on the merger at* extraordinary meetings on April 13.

Scandinavia's largest non-life insurer, known provisionally as Newco and to be formed by the merger of Skandia of Sweden's non-life operations and those of Norway's Storebrand, emphasised again yesterday its interest in expanding its operations in Denmark. However, it said it was not in talks with either Tryg or Codan.

"*We have the ambition for* the new company to create a truly Nordic company and at present we are insufficiently *represented in Denmark* and have no presence in Finland," said Bo Ingermarson, chief executive-designate of the new company.

He said the hitch in the planned merger of Finnish insurers Pohjola and Suomi did not necessarily mean that Pohjola's non-life operations could not join the new company. Pohjola had said it wanted to sort out its merger with Suomi before studying the *opportunities* created by the Skandia-Storebrand non-life grouping.



TD may offer part of global brokerage

By Edward Alden in Toronto

Toronto-Dominion Bank announced yesterday it would make a limited initial public offering of its rapidly growing global discount brokerage business.

The share offering, to be *made to retail and* institutional investors in Canada and the US, and possibly outside North America, will comprise 10 per cent of the Canadian bank's global discount business. Analysts have estimated the market value of that business at more than C$7bn (US$4.6bn), which would price the IPO at just over C$700m.

TD said it expected to file a registration statement and preliminary prospectus later *this month*.

Charles Baillie, chairman and chief executive, said the additional funds raised would increase TD's flexibility to pursue acquisitions in the discount brokerage business, which has been the main focus of the bank's growth strategy for the past two years.

TD is the world's second largest discount broker after Charles Schwab. Its network includes Waterhouse Securities of the US and Green *Line* Investor Services in Canada, the UK, Hong Kong and Australia.

The new global discount brokerage will be known as *TD Waterhouse Securities*.

TD shares dropped C$1.50 to C$68.50 in midday trading yesterday following the announcement.

The bank revealed earlier this year it was considering spinning off as much as 20 per cent of its discount arm to take advantage of the rising stock market valuations for discount brokers.

Charles Schwab, for instance, trades at more than 70 times trailing earnings, while TD shares trade at just 15 times trailing earnings.

Blackstone set to triple Europe fund investments

By William Lewis in New York

Blackstone Group, one of the world's largest investors in hedge funds, is set to announce a three-fold increase in the number of European-based hedge funds it invests in.

Blackstone's alternative asset management division runs eight so-called "fund of funds", *and is one of the* most powerful groups in the US hedge fund industry.

It has traditionally chosen to put almost all of its $1.4bn *of client and Blackstone* money in US-based hedge funds.

The move underlines the recent boom in Europe's hedge fund industry.

Carrie McCabe, president and chief executive of Blackstone Alternative Asset Management, said there were now more than 100 hedge funds based in Europe, up from a "handful *of top quality ones*" three years ago.

"We are very bullish on Europe and the opportunity it offers," she said.

"The companies over there have much lower price earnings multiples than in the US, and the family dynasties are under pressure. That means it is a great time to be investing in Europe in the hedge fund *format*."

While declining to specifically name the European hedge fund managers she has selected, Ms McCabe said the "brightest" European hedge funds included Olympus, *managed by Tjia Ton Fie*; Bayard, run by Jeremy Rolands and Chris Bouckley; and Millennium, managed by Michael Huttman. All the *funds* are based in Europe.

Olympus and Bayard specialise in investing both long and short of European equities, while Millennium has more of a macro focus and invests in and outside of Europe.

The appointments are effective as from today and follow several months of examination by Blackstone.

Blackstone forecasts that *one of the most important* areas for hedge funds will be in merger and acquisition arbitrage, through which investors seek to make profits by predicting takeovers, their financial terms and the likelihood of announced deals falling apart.

Weighing up the benefits of mutual protection

Traditional insurers are preparing strategies to take on unprecedented competition, says **John Authers**

The future of the US life insurance business has begun to take shape over recent months. Prudential Insurance of America and Metropolitan Life, the two largest life insurers by assets, have decided to aban*don mutual status and seek* initial public offerings. Boston-based John Hancock Mutual is also pursuing a demutualisation.

Meanwhile, New York Life and Northwestern Mutual Life – their two biggest *rivals*, which lead the market in traditional life insurance products – have *decided to stay mutual*.

Top 10 US life/health insurance groups

Rank	Group	Status	Assets ($bn)
1	Prudential of America	Mutual	205.2
2	Metropolitan Life	Mutual	183.2
3	Aegon/Transamerica	Public	98.7
4	TIAA Group	Public	93.8
5	Hartford Financial	Mutual	91.1
6	New York Life	Public	84.5
7	Aetna US Healthcare	Public	77.1
8	Equitable	Public	75.9
9	Cigna	Mutual	74.2
10	Northwestern Mutual	Public	71.1

Source: AM Best

The biggest groups in the industry have therefore set their strategy for coping with unprecedented competition from other financial services companies, but this could require them to change their products.

Traditional "protection" life insurance, with premiums offering financial protection against dying too soon, is growing sluggishly. Consumers seem more interested *in pensions and* mutual funds – wealth accumulation products which guard against living too long.

The biggest life insurers are among the strongest and most trusted financial services brands in the US, despite the mis-selling scandals some of them have endured in recent years. This should give them a chance to expand into more products.

The Pru and MetLife want to use the capital they gain from floating to become universal financial services companies, possibly including banks. They also want to expand internationally, and *the Pru has already sig-*nalled its intent by opening life companies in Argentina and Poland. As quoted companies, they will have a share price to use as an acquisition currency.

Robert Benmosche, the MetLife chief executive who announced *the decision to* float last year, says mutual status has become "obsolete", because less than half of the group's customers had a stake in the company.

But the mutuals will have to endure pain before they *can join the ranks of public* companies. In the mutual world, companies do not focus on returns on equity, the key measure for judging *quoted companies' perfor-*mance. Thomas Upton, analyst at Standard & Poor's, points out most companies that have demutualised are generating returns to equity of 6-8 per cent. This is roughly half what the market expects from quoted life companies, he says, and "far lower than is necessary to enable them to defend their autonomy from hostile takeovers".

He predicts at least one hostile takeover attempt on *a mutual company this year.*

Carrying out the demutualisation in itself is also time-consuming and expensive. MetLife still hopes to arrange its IPO within a year of announcing its intention to move. The Pru does *not expect to come to the* market before late next year, though it has already changed its reporting and accounting policies in preparation. It has also embarked on assessing how pay-outs should be distributed.

This is a massive task, which may explain why New York Life and Northwestern Mutual have decided to remain mutual and emphasise *the benefits of mutual* status to potential customers. There is no risk of hostile takeovers, although they must live with the accusation *that their structure is* an anachronism.

However, both companies have an upmarket clientele, a well-trained agency sales force, and a concentration in traditional protection insurance. This guarantees them a stronger flow of high-margin business than the other large mutuals can count on.

Sy Sternberg, *New* York Life's chief executive, questions the need for extra capital, pointing to the growth the company has already been able to fund. It has earmarked $1bn for its international expansion, which already includes businesses in Argentina, Hong Kong, Taiwan and Mexico. It also has plans to sell in China, territory so far trod only by *AIG and Aetna among* American insurers.

Mr Sternberg says staying mutual was a "very clear decision". New York Life did not need the capital, while attempting an IPO would involve a huge change in culture, weaken *its core* products and bring the risk of a predator.

He questions the logic that there is no money to be *made in traditional life* insurance. "It's a very large market, despite relatively flat growth. It's $11bn in new premiums each year, and it's very fragmented. My reading is that when you have a very large fragmented market you have opportunities, particularly when your competitors are taking life insurance off the boil and looking at financial services."

Elektrim chief on sure ground with a foot in both camps

American Barbara Lundberg is appeasing both investors and Polish regulators, write **Christopher Bobinski and Stefan Wagstyl**

When Barbara Lundberg *was appointed* last month as chief executive of Elektrim, Poland's biggest industrial group, analysts wondered how *quickly* an American businesswoman with little Polish could get a grip on such a diverse company.

Ms Lundberg, who has worked in Poland as a fund manager since 1990, was hired after foreign-led shareholders *forced* the resignation of her predecessor in a dispute over the late disclosure of market-sensitive information.

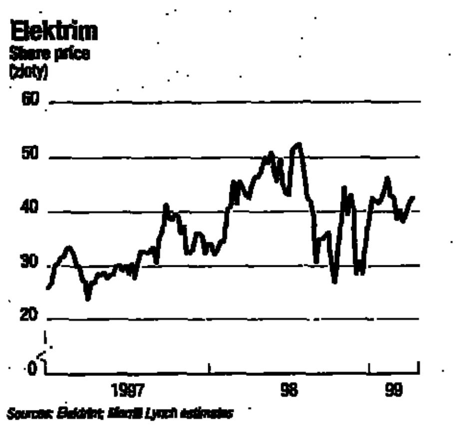
However, *in the last week*, Ms Lundberg, aged 46, showed she had got off to a flying start. First, she signed one of the biggest acquisitions by an east European company – the $325m purchase of Bresnan Telecommunications Poland, a US-owned telecommunications and cable television business.

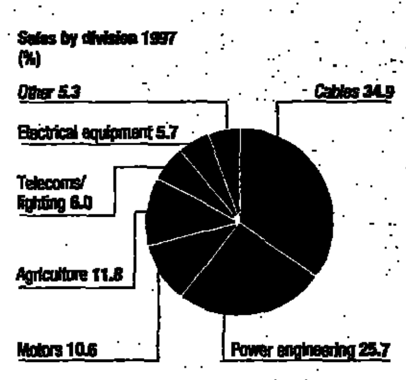
Next, she won a bidding race when *she agreed to* pay $88m for a 20 per cent stake in the state-owned Patnow-Adamow-Konin power plant, one of Poland's biggest. On the same day she announced *she was in negotiations to* buy Poland Telecom Operators (PTO), which owns fixed-line telecom licences in provinces covering 20 per cent of Poland's population.

Ms Lundberg says she plans to grow Elektrim's telecommunications business into the second largest in Poland after TP SA, the state-controlled operator. She intends to turn an exist*ing partnership with* Deutsche Telekom into a comprehensive joint venture.

Ms Lundberg says she also intends to expand the *group's power interests*, while rationalising other parts of her empire. "Elektrim needs focus," she said, as she disposed of 80 non*core subsidiaries this week*. The aim is "to create a flagship Polish company in both telecommunications and energy and power".

Ms Lundberg's rapid start is helping to rebuild company morale following a *shareholders' revolt last* year supported by by Merrill Lynch, the US investment bank. It led to the departure of Andrzej Skowronski, the *former chief executive.*





Sources: Elektrim; Merrill Lynch estimates

Mr Skowronski transformed Elektrim from a state trading company into an industrial conglomerate, with sales last year of about 3.3bn zloty ($828m).

Elektrim acquired more than 100 subsidiaries in cables, power engineering, motors, agricultural equipment and construction. Together with Deutsche *Telekom and US-owned* MediaOne, Elektrim established Era GSM, the bigger of Poland's two mobile phone companies, and devel*oped plans for fixed-line tele*coms.

However, Mr Skowronski fell foul of shareholders by failing to disclose a 1996 deal in which Elektrim pledged to sell for a low price a 6.5 per cent chunk of its 34 per cent Era stake *to Kulczyk Hold*ings, a minor partner in Era.

After his departure in December, Elektrim was hit by a second disclosure dis*pute. This involved a secret* agreement made in October with Deutsche Telekom.

As a former fund manager, Ms Lundberg knows that Elektrim – which may need $1bn in new loans and capital – cannot tap international markets without a more coherent shape. The largest planned investments over the next two years are in telecoms.

Elektrim plans to buy out partners in Era, including MediaOne, which is selling its wireless operations following its takeover this *month by Comcast of the* US.

In fixed-line telecoms, the key lies in securing government confirmation of the Warsaw licence awarded to El-Net in December, despite challenges from rival companies. However, Elektrim already *has* eight other regional licences and has bought two more with the Bresnan acquisition. It could also use Bresnan's Warsaw *cable television* network *for* telephony.

Once Elektrim acquires Poland Telecom Operators, owned by Retel, an Israeli *consortium and Pilicka Tele*fonia the company would control fixed-line licences with access to 48 per cent of the population.

All this requires money and guile. To potential investors, Ms Lundberg must play the hard-nosed American financial expert bringing "focus" to Elektrim. But in Poland, she wants to present Elektrim as a national champion, worthy of favours when competing with foreign groups for telecoms licences and the like.

So far, investors have given her the benefit of the doubt. Elektrim shares have recovered the ground lost during the disclosure row.

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ITALY CEO ADDRESSES ANALYSTS AFTER GROUP SELLS TELECOM ITALIA STAKE PRIOR TO RAISING HOSTILE BID

Olivetti speaks of 'error' over share sale

By Paul Betts in Milan

Olivetti yesterday attempted to mount a damage limitation exercise after surprising the markets on Tuesday by disclosing it had sold 24.4m Telecom Italia shares the previous day - just before raising the value of its hostile bid for the privatised telecommunications group.

Roberto Colaninno, Olivetti's chief executive, and Antonio Tesone, the chairman, were summoned by Consob, the stock market regulator, to explain the Telecom Italia share sale.

Mr Colaninno, addressing analysts at Mediobanca, the Milan investment bank and one of Olivetti's advisers, conceded it had been "an unforgivable error" not to have informed Consob earlier about the sale.

Under Italian stock market rules, Olivetti should have disclosed the transaction on Monday, the same day as it launched its sweetened €11.50 a share offer. Although Mr Colaninno claimed the mistake had been made "in good faith", the blunder was seen as an own goal by Olivetti.

Franco Bernabe, Telecom Italia's chief executive, accused Olivetti of being unable to draw up credible industrial plans and "depressing the quotation of their prey by throwing millions of shares on the market".

Mr Bernabe also launched an advertising campaign in Italian newspapers to persuade Telecom Italia's shareholders to vote in favour of his industrial strategy and defences against Olivetti at the company's shareholder meeting on April 10.

The government confirmed it would adopt a neutral stance at the meeting. The Treasury still holds a 3.4 per cent stake but is considering selling it to institutional investors.

The government's neutral stance came under fire from one of its coalition partners. Nerio Nesi, the economic spokesman of its hard-line Communist allies, said the government had done "another favour to the group of raiders".

Olivetti is also understood to be coming under increasing pressure from Consob to publish its bid prospectus before the Telecom Italia shareholders' meeting, to enable shareholders to be fully informed.

Olivetti's delay in publishing a prospectus has cast further doubts over the company's approach.

Price-watching shareholders may hold the casting vote

The fate of Europe's biggest corporate takeover will be decided at a series of crucial meetings next month, says **Vincent Boland**

The takeover battle between Olivetti and Telecom Italia, for long a phony war, is starting to get serious ahead of crucial shareholder meetings next month that will decide the fate of Europe's biggest corporate takeover.

As both sides traded insults yesterday after Olivetti's surprise sale of 24.4m shares in its quarry, shareholders in Telecom Italia were facing a dilemma over how to vote at the meetings, called to approve the company's defensive and industrial plans outlined by Franco Bernabe, chief executive.

Between meetings with US shareholders yesterday, Mr Bernabe appeared confident of getting enough investor support to win approval for his plans to buy the outstanding 40 per cent of Telecom Italia Mobile, buy back up to 10 per cent of Telecom Italia's shares, and convert non-voting savings shares to voting common stock.

Investor reaction was "very positive", he said. But he admitted his original plan to acquire the rest of TIM using Telecom Italia shares had "perplexed" the market. Mr Bernabe bowed to shareholder pressure last weekend and agreed to pay cash for the 40 per cent stake, which will cost €22.9bn (US$24.6bn).

Mr Bernabe "got a very good response in Italy and a fairly favourable response generally from international investors" to the revised defence strategy, a London-based institutional shareholder said yesterday. But he and other investors privately said there was no guarantee that the company would get enough support to get the measures approved.

In order for the votes to be valid, shareholders owning 30 per cent of Telecom Italia's shares must vote in favour of the measures. Shareholders meet next week to vote on the buyback and conversion proposals, and later in April on the buyout of TIM. Those watching the takeover battle closely say that in theory the target should be achievable but there are several complicating factors.

Mr Bernabe 'got a very good response in Italy and a fairly favourable response from international investors'

First, some 34 per cent of Telecom Italia is owned by domestic retail investors who rarely exercise their voting rights. Second, about 36 per cent is owned by international institutions, many of which also own Telecom Italia savings shares or shares in TIM. International institutions are believed to own 54 per cent of Telecom Italia's savings shares. Several investors said yesterday that as few as a third of these shareholders might support Telecom Italia, although Olivetti's controversial sale of 24.4m shares appeared to lead to more support for Telecom Italia.

Mr Bernabe's cash offer for TIM has not drawn universal favour from Telecom Italia shareholders. Some said it was a "poison pill", despite the value-enhancing addition of extra leverage to Telecom Italia.

Third, the Italian government, Telecom Italia's single biggest shareholder, has said it will not exercise its voting rights in respect of its 3.4 per cent stake. The government, looking to sell the stake, has repeatedly insisted it wanted to remain neutral, but its move "is not supportive of Mr Bernabe", one shareholder said.

That leaves Italy's domestic institutional, staff and core shareholders as Mr Bernabe's key targets in wooing for support for his measures. They own the rest of the company, and the Italian banks in the core shareholding group are understood to have told their asset management arms to support Telecom Italia.

However, a key factor in deciding which way institutional shareholders will vote will be their perception of what might happen to Telecom Italia's share price if Olivetti's bid were thwarted. The share price dipped sharply after Olivetti said it had sold 24.4m shares late on Monday, and there was also speculation that the stake could have been sold to allies of the bidder.

Olivetti's revised offer, which it says is "definitive", values each Telecom Italia voting share at €11.50, in a combination of cash, equity and bonds. Telecom Italia shares closed yesterday at €9.84. "It's the only offer on the table," one fund manager said. "That is an important consideration for performance-oriented investors."

FINANCIAL SERVICES INSURANCE PERFORMANCE NOT MATCHED IN BANKING, SECURITIES

Acquisitions lift ING profit

By Gordon Cramb in Amsterdam

Acquisitions in insurance enabled ING, the Dutch financial group, to achieve 21 per cent growth in annual net profits to Fl 5.88bn (€2.67bn, $2.87bn) amid what Godfried van der Lugt, chairman, yesterday called "the most turbulent year in its history".

ING set aside Fl 2bn for loan losses in banking, where global economic upheavals pushed divisional operating earnings down 37 per cent to Fl 1.77bn.

The securities trading portfolio, which in 1997 had brought in Fl 1.5bn, showed a loss of Fl 228m. "Our risk profile was too high – we must be honest in admitting it," said Mr van der Lugt, who this year authorised a reshaping of investment banking units including those that formed Barings, the UK merchant bank rescued by ING in 1995.

Own-account trading has all but ended. "The first results can already be felt, in a positive sense," he said. But ING Barings would not reach the group's 12 per cent target for return on equity until 2001.

On the outlook for the group as a whole, he said economic conditions remained uncertain, and that an earnings forecast would, at the earliest, come at the annual meeting in May. Mr van der Lugt said financial markets had performed not unfavourably in the first quarter that has just ended.

He described the amount added to provisions last year as exceptionally high, saying the 1999 sum should return to more normal levels.

The ING chief said the group remained on the lookout for a multi-billion dollar acquisition in US life insurance. About a third of the purchase price could be funded in cash, although more could come from a sale of portfolio holdings.

Godfried van der Lugt: 'Our risk profile was too high – we must be honest in admitting it'

Equitable of Iowa, taken over in 1997, contributed Fl 282m to its Fl 4.55bn operating result from insurance, bringing in new premiums worth Fl 7.32bn. Total premium income at Fl 45.06bn was ahead by 42.5 per cent.

Amid consolidation in international financial services, Mr van der Lugt said he did not exclude an eventual full merger if ING felt it had become too small to compete. That could involve either a group from elsewhere in Europe or from the US. ING is still ranked about sixth among European financial institutions, based on market capitalisation.

ING shareholders are to receive a total dividend of Fl 2.75 per share, up from Fl 2.30.

Watchdog to probe Yukos

By John Thornhill in Moscow

Russia's Federal Securities Commission, the stock market watchdog, yesterday launched a full-scale investigation into allegations that Yukos, the giant oil group, had violated minority shareholder rights.

The dispute is seen as a critical test of Russia's corporate governance regime, which has been sullied by a string of investor scandals.

Dmitry Vasilyev, head of the securities commission, said he had launched his investigation after receiving complaints from minority shareholders in Yukos and three of its daughter companies, Samaraneftegaz, Yuganskneftegaz, and Tomskneft. "We will investigate all the facts of the case and if necessary take measures not to allow violations of shareholder rights," he said.

Outside investors have protested that a series of planned rights issues by the three daughter companies would massively dilute minority shareholders' interests and transfer most of the group's value to obscure, offshore funds.

"We are concerned that the assets being transferred to these offshore companies may be irretrievably lost from Yukos and the production subsidiaries," said Daiwa, the Japanese bank, which owns 14 per cent of Yukos' equity.

Yukos, which claims its restructuring plans are perfectly legal, said it would fully co-operate with the securities commission's investigation. The company argues that its recapitalisation plan is designed to simplify its complicated ownership structure.

Mr Vasilyev said he was surprised that the minority shareholders had adopted such a "passive position" and he urged all disgruntled shareholders in Russia to defend their interests in the courts. Nevertheless, Mr Vasilyev said the commission would take action to block the rights issues if they were proven to be illegal.

NEWS DIGEST

GERMANY

Preussag restructuring brings strong rise in sales

Shares in Preussag, the German tourism and industrial group, rose by 5 per cent yesterday after the company announced strong first-quarter sales and predicted an excellent result for the whole year. Preussag said sales in the first three months of its 1998-99 business year, which will end in September, had risen to DM7.4bn (€3.78bn, $4.07bn) from DM4.9bn. The Hanover-based group cautioned that the figures were not directly comparable because it had restructured its business interests so radically in the past year. But analysts said Preussag had earned the admiration of investors for its bold change of direction from heavy industry to leisure and travel services. Preussag's shares have strongly outperformed the German stock market in the past six months, almost doubling in that time to €497 at yesterday's close of trading in Frankfurt. **Tony Barber, Frankfurt**

MEDIA

Mediaset sees earnings leap

Mediaset, the commercial television group controlled by Silvio Berlusconi, the former Italian prime minister, yesterday reported a 19 per cent increase in 1998 consolidated net profits to L551bn (€284m, $306.2m) on an 8.8 per cent rise in net revenues to L 3,653.6bn. The media company, which recently forged a European television partnership with Germany's Kirch group, said the first quarter of this year was encouraging with a 10 per cent rise in advertising revenues. **Paul Betts, Milan**

INSURANCE

Winterthur lifts market share

Winterthur, Switzerland's biggest insurance company, increased its market share from 21 per cent to 24.8 per cent in its first full year after its acquisition by Credit Suisse, Switzerland's second biggest bank. The insurer, which had already reported a 31 per cent rise in operating profits, said the increased market share reflected the benefit of the access to Credit Suisse's customer base and its distribution channels. Credit Suisse referred over SFr1.5bn ($1bn) of individual life premiums to Winterthur and the latter's sales force generated almost 10 per cent of Credit Suisse's new mortgages. One of Winterthur's top priorities in 1999 will be to find a partner to help it exploit Germany, its second biggest market, following Commerzbank's decision to link up with Generali, an Italian insurer. **William Hall, Winterthur**

FRANCE

Frère takes stake in Bouygues

Bouygues, the French construction and communications group, yesterday disclosed that Baron Albert Frère, the Belgian financier, had taken a 1.1 per cent stake in the company. Martin Bouygues, chairman, said he had learnt of Mr Frère's entry into the group's capital "by rumour" on Monday evening. The Frère camp had no comment on the situation. But the disclosure sparked interest because it came just a week after the news that Bernard Arnault, the LVMH chairman, had taken a 4 per cent stake in Bouygues. That announcement initially appeared to represent a new escalation of the battle between Mr Arnault and François Pinault, whose family holding company, Artémis, is a leading shareholder of Bouygues.

Mr Pinault emerged two weeks ago as a white knight for Gucci, the Italian fashion house, in which Mr Arnault had accumulated a large minority stake. The LVMH chairman responded by making a full bid for Gucci. But Mr Arnault's advisers said his Bouygues investment had been held "for several weeks" and had "nothing to do with the battle for Gucci". Mr Pinault moved to centre-stage at Bouygues last year when he bought a 12.6 per cent stake from Vincent Bolloré, another French businessman, to become its biggest shareholder. He subsequently concluded a three-year pact with Martin and Olivier Bouygues. Bouygues shares yesterday climbed 1.9 per cent to close at €257. Yesterday's developments came after the construction group reported a 29.8 per cent decline from FFr755m (€115m, $123.8m) to FFr530m in net attributable annual profit. **David Owen, Paris**

Merger failure cause disputed

By Gordon Cramb in Amsterdam

Aegon, the Dutch insurance group, and AOT, a leading market-maker in Amsterdam stocks, yesterday disputed the reasons for a last-minute collapse in AOT's planned merger with Bank Labouchere, an investment bank owned by Aegon.

The deal was aborted on Tuesday night after Sasker de Boer, AOT chairman, said he did not want to serve for any length of time as a director of the combined entity.

According to Jos Streppel, Aegon's director of group finance, Mr de Boer left for reasons of his own. Without him to rally his traders, however, the operation would have been vulnerable to mass defections by valuable senior staff.

But Mr de Boer, pointing out that he had the support of his own board, said he had become concerned about an operational structure of which details had only recently become clear.

Aegon had intended to hold an initial stake of some 57 per cent in Bank AOT Labouchere. It planned to reduce that holding later, as part of a move to focus on life assurance and pensions. Mr Streppel said it would now retain full control of Labouchere at least for the rest of this year.

Labouchere has assets of Fl 9.42bn (€4.27bn, $4.60bn) and foreign operations in Geneva, London, Luxembourg and New York. Net profits rose 88 per cent last year to Fl 138m.

Chris Bierman, Labouchere chairman, described Mr de Boer's decision as surprising and disappointing. He said there had been no clash of culture between the two sides, nor had other problems been encountered. "I can say with certainty that no skeleton has emerged from the closet," he added.

"But banking is people. It is important that a merger has the right management."

He said the question of a replacement AOT candidate to serve on the board had not arisen. Mr de Boer was to have been deputy to Mr Bierman in a three-man executive including Wim Brouwer, another director from the Labouchere side.

The takeover of Labouchere by the smaller AOT would have created the biggest independent investment bank in the Dutch market, ranking immediately behind the country's large commercial banking groups in its share of Amsterdam equities and derivatives business.

AOT, where 1998 net profits rose 69 per cent to Fl 79m, makes the bulk of its money from equity and options trading and market-making. It is a specialist jobber in stocks including Aegon itself and ABN Amro, which had prepared the aborted prospectus.

The deal was described originally as a response to the emergence of a single European securities market, making it important that the trading expertise of AOT be combined with the distribution capacity offered by the wealthy client base of Labouchere.

BNP bid for rivals is official

By Samer Iskandar in Paris

The takeover battle between France's three largest listed banks entered a new phase yesterday, with the official launch of hostile bids by Banque Nationale de Paris for its rivals Société Générale and Paribas.

For the first time since the twin takeover bids were announced last month, yesterday's publication of BNP's detailed offers allows the targets to counter-attack. It also opens the door to a potential white knight bidder for SocGen or Paribas.

Under French regulations, it was illegal for any of the protagonists to change the terms of its existing offers, or for any other institution to approach them, until BNP's offers had cleared all regulatory hurdles.

The three offers – BNP's unsolicited bids for SocGen and Paribas, and SocGen's agreed bid for Paribas – will run in parallel for an estimated 35 business days. However, in a rare move highlighting the complexity of the situation, the Conseil des Marchés Financiers, the financial markets regulator, has warned that the 35-day deadline usually applied to such offers "might have to be adapted".

Until now, SocGen and Paribas defences against BNP were limited to presentations and advertising.

In the past week, both sides vaunted the merits of their respective proposals in full-page advertisements in French newspapers. BNP took three pages in the daily Le Monde yesterday, at an estimated cost of FFr400,000-FFr500,000 (€61,000-76,000, $66,000-82,000) a page.

Earlier this week SocGen and Paribas ran adverts across two pages on several consecutive days. BNP has also launched an extensive radio campaign.

Last week, SocGen and Paribas also took legal action in a Paris appeals court, challenging the CMF's decision to allow BNP's offer to proceed. André Lévy-Lang, Paribas chairman, and Daniel Bouton, head of SocGen, this week repeated their warnings that BNP's move was risky. "The uncertainty remains, with Paribas and SocGen shareholders not knowing the composition or value of the company in which they will be investors if they tender their shares into BNP's offer," they said.

The boards of SocGen and Paribas are to meet next week to vote on BNP's bids. In the days following BNP's announcement last month, both boards rejected the hostile approaches almost unanimously. Only representatives of Axa, the insurance company that is Paribas' largest shareholder, supported BNP's move.

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COMPANIES & FINANCE: ASIA-PACIFIC

Heads roll before the Orient express

Mitsubishi Electric's president has western view on revamping, says Paul Abrahams

When Mitsubishi Electric picked Ichiro Taniguchi as its president a year ago, the choice seemed uninspired. Compared with Naoyuki Akikusa at Fujitsu or Taizo Nishimuro at Toshiba – both dynamic and fluent English speakers – the apparently staid Mr Taniguchi seemed ill-equipped to deal with the crisis at the Japanese industrial electronics conglomerate.

Virtually everything that could go wrong at Mitsubishi Electric had gone wrong. Its building-related businesses – elevators and escalators – had been mauled by the collapse in regional demand; the industrial and factory automation division hit by the sharp drop in domestic capital spending; consumer operations hurt by the unwillingness of the Japanese to spend during recession; and the semiconductor business damaged by a plunge in prices.

As Mr Taniguchi took the helm, the group posted a net loss of Y105bn ($872m) and passed its dividend for the first time in more than 50 years. But management appeared paralysed: executives seemed to blame anything and anybody but themselves.

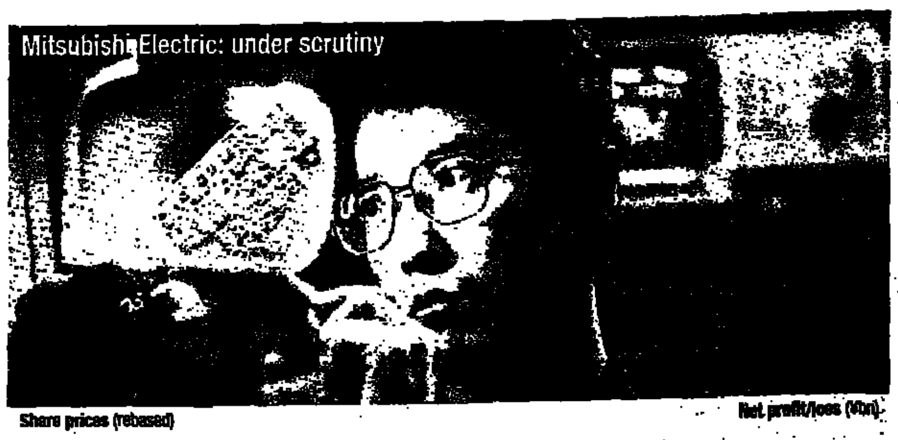
Although overseas operations were rationalised, Mr Taniguchi insisted a restructuring of the domestic businesses was unnecessary. "The day of the industrial electronics conglomerate is not over," he said. "Its day is just dawning."

Yesterday, such conservative views were thrown out the window. Mr Taniguchi revealed restructuring as radical as any yet announced by a Japanese industrial group.

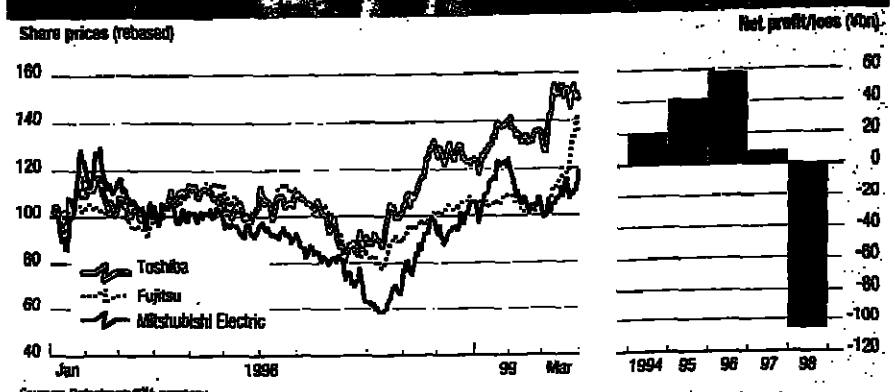
Underlying Mr Taniguchi's vision is the assumption that difficult market conditions will persist. Tachi Kiuchi, a board director, has been insisting that Mitsubishi Electric must accept that the recessionary environment is normality.

The most radical part of the plan is the rationalisation of Mitsubishi Electric's sprawling business empire. Mr Taniguchi's explanation was blunt: "Those [businesses] deemed difficult or impossible to return to profitability will be spun off, sold or shut down by March 2001." Such comments may be common among western chief executives, but that is radical talk in Japan.

However, Mr Taniguchi was vague as to which businesses would be eliminated. He did say that the three loss-making divisions were audio-visual, information systems and semiconductors, but added that there were loss-making businesses in profitable divisions. He said the semiconductor operations were not for sale, as the company tried to make the transition from low-margin commodity D-Rams to added-value logic chips.



Mitsubishi Electric: under scrutiny



Sources: Datastream/ICV; company

The core businesses include communications infrastructure such as fibre-optic cables and satellite communications, high-quality image processing, internet and intranet security, mass communication systems and wireless telephony. These are fast-growing or highly profitable, although he did not rule out alliances in these sectors to build critical mass.

Mr Taniguchi did say the energy systems operations, public systems, building systems, home electronics, factory automation and the automotive electronics businesses might be promoted through strategic alliances and spin-offs.

Some businesses required additional international reach and might be looking for joint-venture partners. These included core businesses such as cellular phones and satellite communications, as well as elevators and escalators and air conditioning, among others.

One of Mr Taniguchi's priorities is to reduce the ratio of debt to assets, from 40 per cent to less than 35 per cent by March 2002. One way this will be achieved is through initial public offerings in about 10 affiliated companies, which Mr Taniguchi again declined to identify.

Cashflow management would be a new priority for the company. Mitsubishi Electric planned to cut capital investment by about 20 per cent and research and development by 10 per cent in the year to March 2000. Moreover, what it does spend it intends to invest more wisely; one director said the company's capital allocation techniques had hitherto been "childish".

Finally, the group is launching an aggressive cost-cutting exercise. "We must construct a profit structure that is not dependent on volume increases," said Mr Taniguchi. Fixed costs would be cut by Y100bn and variable costs by Y50bn.

From June, the board will be cut from 33 to 24. And Mr Taniguchi has created a strategy committee that can look at the businesses' performance with a dispassionate eye.

Though Mr Taniguchi's targets are clear, the way he plans to achieve them remains hazy. The difficult part will be implementation.

MHI to reshuffle managers after loss

By Alexandra Harney in Tokyo

Mitsubishi Heavy Industries, Japan's largest diversified machinery manufacturer, yesterday announced a management reshuffle aimed at pulling the company out of its recent slump.

Takashi Nishioka, vice-president of the aerospace division, will replace Nobuyuki Masuda as president.

Mr Masuda will replace Kentaro Aikawa, who was known for his outspoken support of preserving employment rather than raising shareholder value, as chairman.

MHI, which makes nuclear and electric power plants, ships, aircraft and industrial machinery, last month warned it would record a loss in the second half of the fiscal year that ended yesterday, because of mounting losses at several power plant projects in south-east Asia and the Middle East.

Mr Nishioka said his first priority was to eliminate the recent losses and put the group on a firm financial footing.

"I feel the weight of responsibility during these severe conditions," he said. "The first thing to do will be to improve the situation at the overseas plants."

The losses were the result of expensive repairs MHI was forced to make after parts outsourced from local manufacturers proved defective, and the company was forced to supervise the rebuilding.

MHI now expects parent pre-tax income of Y43bn ($357m) on sales of Y2,500bn in this fiscal year, sharply below record earnings achieved only two years ago.

Mr Nishioka is the first president in four terms to be appointed from outside the power systems division, which until recently accounted for 40 per cent of total sales, and the first president from the aerospace division in 26 years.

Though some analysts saw his appointment as suggesting that MHI was serious about refocusing on earnings and shareholder value, others said profitability would not improve until the group started eliminating excess jobs.

Nissan may end Ford mini-van deal

By Alexandra Harney in Tokyo and Andrew Edgecliffe-Johnson in New York

Nissan Motor hinted yesterday that it could end a joint agreement with Ford on the production of mini-vans in the US, following the Japanese carmaker's recent alliance with Renault of France.

Yoshikazu Hanawa, Nissan president, was quoted by the Nihon Keizai Shimbun newspaper as saying that he has "no intention" of renewing the venture in 2004, when it is due to expire.

Nissan said later that the report was not accurate, and that Mr Hanawa had only stated that he did not believe Renault had an appropriate alternative vehicle for the US market "at this time".

Under the joint production agreement, Ford has assembled people carriers at its factory in Ohio since 1992. Nissan markets the vehicles as Quest, and Ford as the Villager.

The mini-van venture is the only agreement of its kind between Ford and Nissan, and withdrawal would enable Nissan to make a fresh start in the US market, where it recorded Y80bn ($664m) in losses last year and has been struggling to return to the black.

Sales of the Quest have tumbled in recent years as it approached the end of its model cycle, Nissan said. Last year, sales fell to 30,500 from a peak of about 60,000 in 1993.

The sluggish sales reflect Nissan's dismal performance in the US market in recent years. Unlike rivals Toyota and Honda, Nissan relied heavily on leases and other purchase incentives to sell cars in the US, which led to heavy losses and mounting debts.

This performance has raised questions about Renault and Nissan's prospects in the US, the world's largest automotive market. Renault was forced to withdraw from the US in 1987 because of slow sales.

Analysts warn that Renault and Nissan will need to revamp their brand and marketing strategies to lure back US consumers. "Nissan has a terrible brand image in the US," said one analyst, who asked not to be named. "I think Renault has made a big mistake," he added.

Speculation about the ending of the Ford venture comes as the highly leveraged Japanese carmaker, which expects Y30bn in losses this fiscal year, is meeting with suppliers to warn that Nissan and Renault will expect lower prices and greater efficiency from its components makers.

Keener market erodes Maruti

By Mark Nicholson in New Delhi

Maruti, the Suzuki-Indian government joint venture which is India's biggest carmaker, reported its first annual profit setback in eight years, showing a 20 per cent fall in pre-tax profits to Rs7.8bn ($183.8m), which commentators ascribed to increasing competitive pressure in a declining car market.

Sales for the year to March fell by 4.3 per cent to Rs81.2bn in spite of a pick-up at the end of the year, thanks to the company's decision to slash prices for its cheapest and best-selling 800cc model.

Nevertheless, the profit fall is likely to inspire further talk of an eventual disinvestment of the Indian government's stake in its 16-year-old joint venture with Suzuki.

Commentators have argued that the government should sell some or all of its stake before competition erodes the company's current market predominance.

Montek Singh Ahluwalia, India's former chief finance ministry official and a member of the influential planning commission, said this week that the government's Maruti stake was a prime candidate for an early sale.

The company said it held an 80 per cent share of India's passenger car market against sharply increased competition.

Citing a "very difficult" trading year for all carmakers, R. Bhaskarudu, managing director of the 50-50 joint venture, said Maruti had managed to "contain" pressure on profits and sales through cost-cutting, the price cuts and introduction of additional features on most models.

Profit after tax fell 20 per cent to Rs5.2bn.

Domestic sales slipped 6 per cent to 309,094 models, more than half of these being sales of the most basic 800cc Maruti, which has dominated the Indian market for almost 15 years.

Total production also fell to 332,931 models, a slide of 6 per cent.

Investors in PCI Bank may sell up to 72%

By Tony Tassell in Manila

Philippine Commercial International Bank, the country's fourth largest commercial bank, has confirmed that two dominant shareholders in the bank could be selling their stakes.

Rafael Buenaventura, the bank's president, who is widely expected to be appointed soon as governor of the Philippine central bank, said the joint sale of a combined 72 per cent stake belonging to the Gokongwei and Lopez families was under "serious consideration".

His comments came after months of speculation over a sale by its two leading shareholders had led to volatility in the bank's share price. Rumours over a disagreement between the two families fuelled expectations of the sale, and the bank's share price nearly doubled, from 120 pesos on December 7 to yesterday's close of 219 pesos.

Analysts estimate the combined block would be worth around $600m to $650m and would attract a long queue of local and international suitors. HSBC Holdings, ABN Amro and Development Bank of Singapore, as well as local banks including Metropolitan Bank, Bank of the Philippine Islands and Far East Bank and Trust Co, are on the list of potential candidates.

Girish Kumar, regional banking analyst with Merrill Lynch, said many local and international banks would take a "very serious look" at PCI Bank. "There are not many banks of its size and quality up for sale," he said.

With 150bn pesos ($3.87bn) in assets, PCI Bank would offer a large local bank the opportunity to leapfrog into market dominance, and a foreign bank the chance to establish an extensive local presence.

PCI is regarded as one of the country's better banks, although its reputation has slipped a little over the past 18 months during the Asian economic crisis. Analysts said relatively high exposure to foreign currency lending had seen its non-performing loans rise to about 13 per cent at the end of December, above the industry average of about 10.

However, while analysts would expect strong interest, doubts remain over whether both the Gokongwei and Lopez families are planning to sell.

Analysts believe the Lopez family could be the sole seller. The family is believed to be looking to lift its 33 per cent stake in Manila Electric, the Philippines' largest power distributor, to retain control of the company and raise funds for other businesses.

"We have not discounted the possibility that Mr Gokongwei would sell his stake with the Lopez Group, against a very attractive offer. However, we are more inclined to think that only the Lopez family has a compelling reason to leave PCI Bank," said Ismael Pili, analyst with Indosuez WI Carr.

Ed Bancod, analyst with Paribas Asia, also cautioned that the sale of the joint stake remained largely speculation.

Groups sell shares in C&W Optus

By Russell Baker

Two of Australia's biggest media groups, Seven Network and Publishing & Broadcasting (PBL), have each offloaded large shareholdings in Cable & Wireless Optus, the telecommunications group controlled by the UK's Cable and Wireless.

Seven, controlled by entrepreneur Kerry Stokes, sold 75m C&W Optus shares at A$3.65 each, realising a profit of more than A$130m (US$81.6m).

It will use the proceeds to fund a proposed share buy-back, but intends to hold on to its remaining 50m C&W shares.

PBL, controlled by Kerry Packer, also revealed it had completed the gradual liquidation of its holding of 64.5m shares in C&W Optus at a A$136.6m profit.

PBL offloaded 16.5m shares on Wednesday, having already sold 48m since January. PBL said it had received an average price of A$3.48 for its 64.5m shares.

C&W Optus shares closed down 1 cent at A$3.65.

INDONESIA MANAGEMENT JOINT VENTURE STILL SUBJECT TO GOVERNMENT VETO

Hutchison arm buys 51% stake in ports

By Sander Thoenes in Jakarta

Hong Kong's Hutchison Whampoa yesterday announced that a subsidiary had agreed to pay $215m for a 51 per cent stake in management of two large Indonesian port terminals, despite a continued government veto on important decisions.

Grosbeak, a 100 per cent Hutchison subsidiary, will manage the two container terminals in Jakarta jointly with Pelabuhan II, the state-owned port authority, for 20 years. The joint venture pledged to invest $340m during the concession to almost double capacity, from the current 1.6m tons-equivalent units to 3.1m TEU, on a build-operate-transfer basis.

This was only the third sale of government stakes in the fiscal year, which ends today. That compares with original plans for 12 auctions, and brought privatisation revenues to $421.5m, well below the $1.5bn target.

Grosbeak went ahead even though the government backed away from privatising the port outright and insisted on keeping its veto. "That's why negotiations took quite some time," said Sofyan Djalil, of the Ministry of State Enterprises. "Grosbeak did not like the veto."

Grosbeak said it was not aware of other Hutchison port joint ventures being subject to a government veto, and would not say why the company agreed to the move. Goldman Sachs, which advised the government on the sale, would not say which decisions could be vetoed.

As the joint venture's assets are held only in concession, they cannot be pledged as collateral. Mr Djalil said Pelabuhan II would not put up any cash, forcing the venture to rely on cashflow or loan guarantees from Hutchison.

Indonesian members of parliament have accused the government of selling assets cheaply, but officials argue that the modifications of the sales, such as a reduction of the stakes and the veto, reduce market value.

Hutchison is the world's largest independent container port operator, with stakes in 17 ports that account for about 10 per cent of global container traffic. Pelabuhan II operates 29 ports that handle the majority of Indonesia's trade. Half of its profits came from the two terminals now put under concession.

Mr Djalil said the next privatisation will be at the rival Pelabuhan III port in Surabaya, which has received five bids. Three other large sales have been delayed until later this year.

Aneka Tambang benefits from fall in rupiah rate

Aneka Tambang, the partly-privatised Indonesian mining company, yesterday credited a fall in the rupiah exchange rate for a 360 per cent rise in profits but lower metal prices and illegal mining prevented even stronger results and promise a decline in months to come, writes Sander Thoenes.

Net profits for 1998 were Rp319.6bn ($36.6m), up from Rp69.5bn, as the rupiah value of sales more than doubled to rp1,021.9bn, from Rp449.6bn. In dollar terms sales contracted, however, with realised ferronickel sales prices down 31 per cent and high grade nickel prices down 35 per cent.

Gold production slumped to 1,569kg, from 2,004kg, due largely to illegal mining.

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TELECOM ITALIA

TO ALL STOCKHOLDERS OF TELECOM ITALIA

OPEN LETTER FROM FRANCO BERNABÈ.

I wish to address all stockholders who are interested in the future of this Company, which is one of the largest telecommunications operators in the world.

Three months ago I was called to Telecom Italia to develop its great growth potential and to create all the value the Company is capable of, which is substantial. I accepted this assignment as a personal challenge, and as a natural continuation of the engagement that I brought to a successful conclusion at ENI, which is very similar to the current one.

Together with Management I developed a competitive Industrial Plan based on the latest models of telecommunications technology, and on the integration of wired and wireless telephony, of Telecom Italia and TIM. As a result, wired telephony will benefit from a boost of innovation from cellular telephony, and wireless telephony will make use of the know-how and experience achieved by Telecom Italia over many years of leadership.

We then launched a concerted cost reduction plan and made financial decisions in support of new investments capable of creating further value.

These plans represent the basis of our Company's development, but they must be implemented with the appropriate rigor and in a stable environment.

And this is exactly what Olivetti wishes to prevent, with the demands it has made to vote against all resolutions proposed at the Stockholders' Meeting.

My personal commitment to Telecom Italia's stockholders calls for:

1) Maximizing stockholder value;
2) Repositioning the Company to facilitate its growth;
3) Being accountable to, and open with, the stockholders;
4) Providing continous information to stockholders;
5) Achieving the correct market value.

Telecommunications companies will have a growing importance on the stock markets in the third millennium: I expect Telecom Italia to occupy a leadership role in this process.

Franco Bernabè
Chief Executive Officer

BUILDING MATERIALS GROUP MAKES TWO ACQUISITIONS FOR $117M

US expansion for RMC

By Charles Pretzlik

RMC, the cement and ready-mixed concrete group, has bought two US businesses for a total of $116.8m including debt.

The move follows widespread criticism that the *group has been too preoccupied* by its business in Germany and has been under-represented in the expanding US market.

The businesses being bought are Jobe Concrete Products, which operates in Texas and New Mexico, and Reno Sparks Ready Mix in Nevada. They mean RMC now operates in 12 US states.

Peter Young, chief executive, *said:* "We have one or two other acquisitions we hope to close in the next three or four months. We've been mindful of the prices being asked for businesses." *The price it is paying for* Jobe and Reno Sparks represents 8.2 times their earnings before interest and tax of $14.2m.

He declined to comment on whether RMC would bid for all or part of Scancem, the Nordic building materials group which is being auctioned by Aker and Skanska and which analysts value at more than £1bn.

Lennart Johansson, a Scancem board member, said: "It feels like RMC is willing to buy the whole company, that's the perception we've had from the beginning."

RMC is understood not to have decided whether to make a formal offer. Offers are due after Easter and *will be considered at a Scan*cem board meeting on April 8.

RMC yesterday said pre-tax profits before exceptionals fell 14 per cent to £264.5m ($425.8m) in the year to December 31 because of difficult trading in Germany, as it predicted in its January warning.

Its German profit declined by 39 per cent to £76m *after a slowdown in the east* of the country, particularly because of poor weather conditions.

RMC expects volumes in east Germany to fall by as much as another 8 per cent this year, but will have a "small uplift" in 2000 or 2001.

UK profits edged up 1 per *cent to £87.3m and in the* rest of Europe, excluding Germany, profits rose 17 per cent to £79.3m.

In the US, profits rose 17 per cent to £54.2m.

Group pre-tax profit rose 8.7 per cent to £334.4m after a £69.9m exceptional gain, mostly from the profit on the sale of its Hall & Co builders' merchant to Wolseley.

Turnover rose 1.8 per cent *to £4.41bn.*

The board is recommending a 20.5p (19.8p) final dividend, lifting the total 3.6 per cent to 29p, payable from earnings per share of 82.4p (70p).

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alpha Airports	Yr to Jan 31	640.9	(702.2)	16.5♠	(15.5♠)	5.77	(4.52)	1.16	July 12	3.5	3	5.34
Aquarius	Yr to Jan 31	51.2	(35.6)	7	(5.36♠)	22.56†	(18.04)	5.7	July 1	5.69	9.1	9
Barr (AG)	Yr to Jan 30 ☆	106.9	(136.7)	12	(14.4)	44.15	(51.85)	11.25	June 9	10	18.25	21
Beatalls	Yr to Jan 30	110.5	(104.3)	3.02	(11.7♥)	6.08	(31.65)	3.25	May 24	3.15	3.95	3.85
British Fittings	Yr to Dec 31	90.1	(88.8)	8L♠	(4.86♥)	31.67L	(11.84)	3.45	May 25	3.45	5.1	5.1
Brooks Service	Yr to Dec 26	33.7	(31.6)	2.2	(1.66)	11.93	(9.67)	3.4	June 1	2.7	5	4
Barnden Leisure	6 mths to Dec 31 ★	6.43	(8.54)	1.86L	(5.06L♠)	1.53L	(4.19L)	-	-	-	-	nil
Costain	Yr to Dec 31	391.5	(576)	0.5♥	(7.4L♥)	nil†	(3.5L)	nil	-	nil	nil	nil
Delcam Φ	*Yr to Dec 31*	*13.7*	*(14.6)*	*1.42L♠*	*(0.5)*	*23.7L*	*(7.4)*	*nil*	-	*0.9*	*nil*	*1.5*
Deacora	Yr to Dec 31	20.4	(39.9)	5.14	(4.98)	16.8	(14.2)	5.3	June 30	4.9	5.3	4.9
Eadie	Yr to Dec 31	25.9	(32.8)	1.27	(0.374L♠)	1.5†	(1.7L)	0.25	May 28	0.2	0.45	0.2
Elect Retailing $Φ	*Yr to Dec 31*	*3.76*	*(1.97)*	*34.3L■*	*(26.9L■)*	*1.62L*	*(1.27L)*	-	-	-	-	-
Estates & Agency	6 mths to Dec 31	2.84□	(2.77□)	0.856	(1.1♥)	10	(15.4)	9	Apr 29	9	-	20.5
Glenchewton	Yr to Dec 31	19.1	(20.3)	3.18♠	(4.03♥)	8.76	(12.59)	1.56	May 13	1.33	2.4	2
Halstead (James)	6 mths to Dec 31	38.3	(35.6)	4.65	(4.42)	10.31	(9.92)	3.875	June 3	3.75	-	10.25
Jacks (William)	Yr to Jan 31	139.3	(122.2)	2.71♥	(1.89♠)	15.74	(9.19)	4.4	July 6	2.25	6.15	3.5
JBA	Yr to Dec 31	291.5	(221.7)	1.7L♥	(5.23)	20.92L	(10.12)	nil	-	3.85	1.25	5.1
JKX Oil & Gas	Yr to Dec 31	15	(31.2)	56.5L♠	(3.3L♠)	46.38L†	(4.16L)	-	-	-	-	-
Johnston Group	Yr to Dec 31 ★	109.9	(110.9)	7.36♥	(5.44♥)	33.53	(22.03)	8	July 2	7.5	12.75	12
Jones Group ♣	Yr to Dec 31	92.4	(104)	1.15L♠	(2.19)	22.8L‡	(14.7)	-	-	-	-	-
Jumbo Intl Φ	Yr to Dec 31	2.23	(0.346)	0.018	(0.341L)	0.11†	(5.85L)	-	-	-	-	-
Leeds Sporting	*6 mths to Dec 31 ★*	*17.7*	*(13.5)*	*1.87*	*(0.011)*	*0.61†*	*(0.04)*	-	-	-	-	-
London Town Φ	Yr to Dec 31	2.71	(2.75)	0.438	(0.513)	7.43†	(13.5)	1.21	May 14	1.2	2.31	2.2
Martin Intl	Yr to Dec 31	128	(122)	3.36	(2.42)	5.4†	(4.5)	0.95	July 1	0.8	1.5	1.3
McKechnie	6 mths to Jan 31	258.5	(328.5)	28.6	(28.6)	20.5	(20.5)	7	July 1	6.825	-	20.825
MediaKey	Yr to Dec 31 ★	24.4	(21.1)	2.6L♠	(1.24♠)	3.4L†	(1)	nil	-	0.8	nil	1.2
Newcastle United	6 mths to Jan 31 ★	25.1	(31)	5.6	(7.23)	3	(3.2)	0.6	May 10	0.6	-	1.76
QS	Yr to Jan 30	63.9	(58.5)	1.09	(0.28♥)	1.58	(0.07)	0.5	July 6	nil	0.5	nil
REA	Yr to Dec 31	70.5	(89.5)	1.35♠	(1.7♠)	0.1	(4.8)	4	Jan 31	2.4	4	2.4
RMC	Yr to Dec 31 ★	4,410	(4,330)	334.4♥	(307.6)	82.4	(70)	20.5	June 1	19.8	29	28
Telspec	Yr to Dec 31	51.8	(53.1)	5.33L♠	(4)	17.74L	(8.16)	0.1	June 1	0.1	0.1	0.1
TAh $	*Yr to Dec 31*	*3.63□*	*(2.68□)*	*15.9L■*	*(17.3L■)*	*0.59L*	*(0.74L)*	-	-	-	-	-
Upton & Southern	27 wks to Jan 30	9.08	(7.35)	0.04	(0.238)	0.02L†	(0.12)	nil	-	nil	-	nil
VI Φ	Yr to Dec 31	4.12	(3.79)	0.333L♠	(0.631♠)	2.4L	(1.6)	-	-	-	-	-
West 175 $Φ	*Yr to Dec 31*	*1.06*	*(1.79)*	*2.06L*	*(1.14L)*	*0.39L*	*(0.28L)*	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
English & Scottish	Yr to Jan 31	192.3	(191.8)	7.77	(7.48)	4.49†	(4.61)	2.45	Apr 6	2.7	3.65	3.65

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ☆Comparatives for 15 months. ΦAim stock. ♣Irish currency. ‡On reduced capital. ★Comparatives restated. $US currency. □Total income. ■After tax.

BP/Arco deal could derail tracker funds

By James Mackintosh and Robert Corzine

The proposed $25bn takeover of Atlantic Richfield of the US by BP Amoco could derail unit trusts worth over £2bn which aim to track the popular FTSE 100 index. The deal would take BP Amoco's value in the index close to 10 per cent, *also the legal maximum* the trusts can hold in one share.

BP Amoco is already the largest company in the Footsie. Its market capitalisation fluctuated yesterday between £104bn ($167bn) and £102bn, 8.5 per cent of the index. But if the Arco takeover went through at $77 a share, as analysts predict, its size would increase to some £117bn, about 10 per cent.

For index tracking funds, which attempt to match the performance of an index by holding all the shares in it, this would make it impossible to equal index performance.

"It is clear that if the 10 per *cent ceiling prevails* there is a conflict from the objective of the fund and the rules", said Anne McMeehan, director of communications at the Association of Unit Trusts and Investment Funds, an industry body. "We are lobbying for clarification."

One large fund manager suggested FTSE 100 index *funds could abandon the* blue-chip Footsie and move to the broader All-Share index. However, this would be only a temporary solution as BP Amoco already makes up 6.8 per cent of the All-Share.

John Demaine, *managing* director of product development at Barclays Global Investors, the largest index tracking fund manager, said: "[BP Amoco] moving just over the 10 per cent limit is not going to introduce an enormous amount of tracking error."

BP Amoco refused to comment. However, markets expect a formal announcement on the Arco deal as early as today.

Hold-up in ICI/ Huntsman deal

By William Lewis in New York and Virginia Marsh in London

Talks between Imperial Chemical Industries of the UK and Huntsman of the US have hit a last-minute hitch and the companies are now hoping to be able to sign and announce their $2.8bn deal in mid-April.

People involved in the *negotiations* said the talks had cooled, albeit temporarily, and Huntsman executives had flown back to the US without signing the deal.

One said the hold-up should be seen as protraction and delay rather than collapse. Talks had reached a near-final stage on Tuesday, with agreement that the UK company would retain a minority stake in the businesses it sold to Huntsman.

The deal, drawn up but not signed, would see Hunts*man acquire parts of ICI's* materials and industrial chemicals division, including its tioxide business.

MBO to approach Swallow again

By Chris Tighe and David Blackwell

The management buy-out team trying to save Swallow's two breweries in Sunderland and Sheffield was expected last night to table two last ditch offers.

Swallow, the hotels and pubs group *formerly known* as Vaux, last week rejected a £70m ($113m) offer for the breweries and 350 tenanted pubs from the buy-out team, which is led by Frank Nicholson, managing director of the brewing division.

Its decision resulted in the resignation of his younger brother Sir Paul Nicholson *as non-executive chairman* after he attacked the board decision.

Now the MBO team is believed to be ready almost to double the price if Swallow agrees to sell all 660 tenanted pubs.

Alternatively the MBO *and* its venture capital backer Alchemy Partners is understood to be *willing* to accept a shortened beer supply agreement in return for a price well below £70m. Their requirement for a five-year guaranteed market for their beers through Swallow's outlets was one of the big sticking points in the unsuccessful bid.

Swallow has been under *strong* political and community pressure since it rejected the previous bid on *grounds of insufficient* shareholder value.

It will be pressed hard for a rapid decision on the latest offers because of the adverse impact of the continuing uncertainty on the brewing division's customers and 700 employees. *Redundancy* notices are set to go to employees next week, with the breweries closing on July 2 if there is no deal.

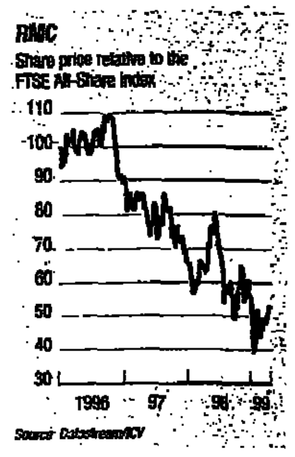
"Every day which goes by our business is being damaged," said Mr Nicholson yesterday. "There have been significant customers voicing their concern."

Mr Nicholson said he was keen to see a decision from Swallow on the revised offers by Tuesday. He thought it "unlikely but not impossible" that the board would reverse its decision not to sell to the MBO.

Rejection of the revised bids would almost certainly kill the MBO plan. "There's just nothing else," said Mr Nicholson.

COMMENT

RMC



Swedish-style seduction is a relaxed affair. *Not for Scan*cem, the role of blushing bride. A director of the Scandinavian cement concern has said intriguingly that RMC *could buy the whole com*pany – including Castle, a big UK cement producer. This may be a tease to reel in the bids. But if RMC is keen, *it could prompt a shake-up of* its home market. So far, UK cement and concrete producers have resisted the vertical integration of their continental European peers. If RMC, a concrete heavy, moved upstream into cement, rivals such as Aggregate Industries might *follow suit. There could* be drawbacks to this strategy. UK concrete companies already benefit from stiff competition among cement suppliers. If snapping up domestic cement companies made so much sense, why has Lafarge, the integrated French group, *not moved following its acquisition* of Redland? And in areas where RMC did not need all Castle's cement, it might find it difficult to persuade its concrete rivals to buy the surplus.

BMW/Rover

So the UK government has done it again, caving in to the tit-for-tattery of European car subsidies. In an industry suffering from global excess capacity, nothing could have boosted Labour's credibility more than refusing to play along. But if rumours are right that the bung is in the order of £150m, at least BMW has not squeezed the British taxpayer too hard. Although sweeter than the government's opening shot of £118m, such a sum represents less than 10 *per cent of the £1.7bn cost of upgrading* Longbridge. It compares favourably with the more lavish deals of old, rightly reflecting the fact that BMW's threat to move production to Hungary lacked credibility, not least because the UK is Rover's biggest market.

In the context of the leap of faith BMW shareholders are taking, this cash *injection* is a trifle. Fantastic reviews for Rover's recently launched R75 and a hard-won labour agreement are a much better justification for the risk of going ahead with new mid-size models for the British brand. The road back to sustainable profitability may be long and full of *potholes, but Rover has a 50-50 chance* of making it before BMW shareholders are thoroughly sick. Since they have already absorbed the worst of Rover's losses, they should not turn back now.

NEWS DIGEST

CONSTRUCTION

Costain returns to black after five years

Costain, the construction group which came close to collapse 18 *months ago,* reported its first profit since 1993 with a pre-tax figure of £500,000 ($800,000) last year against a £7.4m loss in 1997. The group lost £2.4m at the *operating level, but pre-tax profits were lifted by* £2.5m interest receipts, the first interest the group had received this decade.The group's quest for less risky, higher margin business led to a 32 per cent fall in turnover to £391.5m.

John Armitt, chief executive, said: "The absolute priority for Costain has been the need to focus on financial stability and minimising risk."

The group plunged into difficulties in the early 1990s *after write-downs on the value of its land bank and losses* on its US coalmining business, losing £600m between 1991 and 1996.

Mr Armitt *said* Costain was now returning to the short-lists for large contracts after being sidelined for years because of fears about its financial stability. It often bids with Skanska, the Swedish construction group, which holds a 7.6 per cent stake.

Mr Armitt said the construction industry would enjoy "sensible growth" this year. He is reorganising the group and expects to cut costs by £10m next year.

The shares – which were suspended for a year until November 1997 after the group plunged into trouble – rose 1p to 18½p. They were relisted after shareholders supported a plan to raise £47.5m from a share sale, including debt conversion. That refinancing, the group's second in two years, left Skanska with its 7.6 per cent stake. Skanska has the option to raise its holding to 40 per cent in the next 18 months at an average price of 45p *a share. Intria, the Malaysian construction group, holds a* 37.8 per cent stake. Kharafi, the Kuwaiti-based construction company, holds 19.9 per cent. **Charles Pretzlik**

ENGINEERING

BTR Siebe confirms review

BTR Siebe yesterday confirmed it had appointed Goldman *Sachs and Morgan Stanley, the investment banks,* to review its business portfolio. The engineer is thought to want to raise about £1.9bn ($3.1bn) from the sale of its automotive and paper technology businesses to focus more clearly on engineering controls and automation. Deals are not expected to be concluded before June. The advisers are also believed to be looking at options for further acquisitions.

Separately, BTR Siebe announced that Nemic-Lambda, its majority owned Japanese subsidiary, was to pay Y6.7bn ($55.8m) for NEC's stake in Nippon Electric Industry, the power switching group known in Japan as Densei. Nemic-Lambda would then acquire the remaining shares in Densei in exchange for its own paper in a deal valuing the residual stake at Y6.7bn. It will also assume Y13.8bn of debt. The deal will more than double Nemic-Lambda's sales to some Y60bn. BTR Siebe was advised by Morgan Stanley Dean Witter, Nemic-Lambda by Sumitomo Bank. **Paul Abrahams in Tokyo and Thorold Barker in London**

FOOD MANUFACTURING

Tomkins finds buyer for mills

Tomkins has found a buyer for the four Spillers flour mills it was ordered to sell following a Monopolies and Mergers Commission report last year. The purchaser is Archer-Daniels-Midland, an agribusiness group based in Decatur, Illinois. The price was not disclosed at ADM's request, but analysts speculated that Tomkins would have raised less than £30m for the mills, which it acquired with two others for a total price of £92m. Tomkins said the loss on the sale would be covered by the £40m provision made at the time of its interim results in January.

The Office of Fair Trading has approved the purchase. ADM's activities in the UK are largely confined to edible oils.

The sale brings to an end an embarrassing episode for Tomkins. It acquired the six Spillers mills from Kerry Group, the Irish company, last March. It aimed to integrate them with its own Rank Hovis milling business, and had thought the deal would *not be referred to the MMC. But* the MMC decided that Tomkins' ownership of all six mills could be expected to push up flour and bread prices. **Maggie Urry**

EURO PRICES

EQUITIES

Europe subdued ahead of Easter holiday

EUROPEAN OVERVIEW

By Bertrand Benoit

The main European equity markets closed higher yesterday despite a sluggish start on Wall Street and weak economic figures from France. But activity remained subdued ahead of the four-day Easter weekend.

Figures from INSEE, the French statistical agency, showed a 7,900 rise in seasonally adjusted unemployment, the first increase since August last year.

Short of damping enthusiasm, the figures boosted expectations that the European Central Bank would cut interest rates when its board meets on April 8.

"Europe has decoupled from the US today, with rising bond yields and expectations of rate hikes putting pressure on equities in New York, while European investors were thriving on hopes of a rate cut next week," said Matt Dennis, European equity strategist at ABN-Amro in London.

Although most analysts now expect the ECB to cut rates at one of its next two meetings, many think that rising oil prices, fears of a pick-up in inflation, and the weak euro could make this the last cut in the economic cycle.

"The market reacted positively to the French figures but they are probably bad news since they suggest consumer confidence, which has sustained earnings so far, is on a downward slope," said James Cornish, European strategist at BT Alex Brown.

The FTSE Eurotop 300 index rose 8.18 or 0.7 per cent to 1,258.89, while the FTSE Eurotop 100 added 16.80 or 0.6 per cent to 2,920.06. The FTSE Ebloc 100 index closed 9.23 or 0.9 per cent higher to 1,031.48.

Telecom stocks turned in a strong performance, with British Telecom ending 10 cents higher at €15.06 on news that its joint venture with AT&T had been cleared by the European Commission.

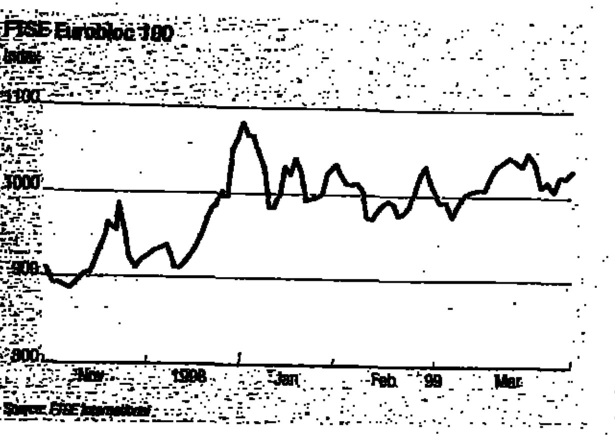
France Telecom also rose, adding €3.90 to €74.90 as Olivetti's increased bid for Telecom Italia supported sentiment for the sector.

Another winner was DaimlerChrysler, which closed 80 cents higher at €80.55 after it said that 1999 profit growth would match sales forecasts of four per cent.

BMW lost €27.20 to €606 following a meeting with analysts where the company refused to be drawn on the fate of Rover.

FTSE Eurobloc 100

Index



FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Mar 31 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop300	1258.89	+0.65	+8.18	2.03	4.80	1301.35
FTSE Eurotop100	2920.06	+0.58	+16.80	2.00	11.30	1050.95
FTSE Eurobloc100	1031.48	+0.90	+9.23	1.96	1.32	1048.36
FTSE EuroMid	1226.44	+0.05	+0.59	2.90	5.85	1276.97
FTSE EuroMid Eurobloc	1194.03	+0.58	+6.87	2.55	3.08	1222.43
FTSE EuroMid Ex UK	1247.19	+0.15	+1.81	2.38	3.05	1273.42
FTSE Eurotop 300 Regions						
Eurobloc	1287.66	+0.89	+11.32	1.90	2.01	1317.31
UK	1231.36	+0.03	+0.37	2.48	9.80	1303.61
Europe Ex-Eurobloc	1240.44	+0.42	+5.19	2.17	7.58	1292.94
Europe Ex-UK	1274.98	+1.01	+12.70	1.78	2.01	1300.92
FTSE Eurotop Industry Sectors						
RESOURCES	1028.61	−1.50	−15.64	2.86	3.69	1080.23
Mining	947.38	−2.38	−23.09	3.87	21.37	991.19
Oil & Gas	993.25	−1.46	−14.74	2.82	2.82	1030.81
BASIC INDUSTRIES	1097.66	+0.27	+2.91	2.81	6.07	1127.40
Chemicals	828.58	+0.59	+4.85	2.58	2.47	845.77
Construction & Bld Matls	1043.99	−0.48	−5.05	2.16	1.13	1054.34
Forestry & Paper	965.40	−0.52	−5.01	4.01	38.68	1050.31
GENERAL INDUSTRIALS	1145.55	+0.78	+8.87	2.41	5.30	1175.46
Aerospace & Defence	778.55	+0.55	+4.25	2.31	3.94	793.15
Diversified Industrials	959.79	+0.14	+1.34	2.10	0.00	981.74
Electronic & Elect Equip	1073.28	+1.46	+15.45	1.81	9.86	1089.54
Engineering & Machinery	1046.06	+0.81	+8.45	4.47	4.16	1064.92
CYCLICAL CONS GOODS	1266.67	+0.39	+4.88	2.40	0.60	1302.14
Automobiles	919.92	+0.65	+5.95	2.47	0.53	926.96
Household Goods & Texts	1385.99	−0.76	−10.60	2.06	0.00	1397.82
NON-CYC CONS GOODS	1238.20	+1.47	+17.89	1.48	5.29	1277.81
Beverages	946.81	+0.74	+6.93	2.40	10.32	978.05
Food Producers & Process	901.00	+0.41	+3.69	1.70	1.41	912.98
Health	1102.20	+7.11	+73.19	0.98	0.00	1118.69
Packaging	783.41	−0.27	−2.13	1.15	0.00	784.38
Personal Care & Hse Prods	1082.18	+2.89	+30.36	0.93	1.94	1093.35
Pharmaceuticals	1153.73	+2.02	+22.84	1.19	4.40	1184.58
Tobacco	1336.03	−2.05	−27.98	3.76	26.75	1388.45
CYCLICAL SERVICES	1315.99	+0.73	+9.52	2.06	4.18	1358.83
Distributors	594.56	−1.42	−8.59	1.57	0.00	601.24
General Retailers	1067.16	+1.09	+11.54	2.29	1.27	1090.49
Leisure Entertmt & Hotels	991.10	−1.17	−11.77	2.06	8.72	1014.33
Media & Photography	1237.62	+1.70	+20.67	1.81	6.39	1257.34
Rests, Pubs & Breweries	855.07	−0.53	−4.57	3.37	3.71	883.99
Support Services	1053.70	−0.22	−2.30	1.27	1.10	1065.95
Transport	982.10	+0.91	+8.84	2.61	5.18	1005.45
NON-CYCLICAL SERVS	1352.33	+0.82	+11.00	1.33	0.48	1392.41
Food & Drug Retailers	1060.46	+0.76	+8.03	2.04	0.51	1077.18
Telecommunications Servs	1334.31	+0.83	+11.00	1.21	0.43	1354.64
UTILITIES	1392.80	+0.18	+2.53	3.16	6.20	1483.42
Electricity	1054.93	+0.69	+7.24	3.35	5.57	1094.17
Gas Distribution	1182.92	−0.52	−6.17	1.65	1.00	1303.50
Water	892.84	−2.12	−19.14	5.59	5.94	930.34
FINANCIALS	1335.80	+0.63	+8.33	2.19	6.64	1379.31
Banks	958.23	+0.43	+4.12	2.57	6.52	978.86
Insurance	981.33	+1.28	+12.38	1.40	1.78	994.96
Life Assurance	1107.74	+0.37	+4.07	1.81	4.55	1126.66
Investment Companies	999.16	+0.13	+1.31	1.28	0.00	1023.13
Real Estate	741.61	−0.15	−1.12	3.38	1.67	762.69
Speciality & Other Fin	1028.33	+0.17	+1.73	2.20	2.94	1048.54
INFORMATION TECH	983.53	+2.95	+28.17	0.85	4.42	990.63
Information Tech Hardware	1085.36	+4.02	+41.97	0.95	6.24	1094.68
Software & Computer Serv	748.06	−0.56	−4.19	0.54	0.15	749.98

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THREE MONTH EUROBOR FUTURES (LIFFE) €1m 100 - rate

[illegible]

THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

[illegible]

THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (FEO) €10 per index point

[illegible]

OTHER INDICES

[illegible]

For real-time FTSE Eurotop 300 index quotes call FT Cityline on 0906 843 5920. Calls are charged at 60p per minute at all times.

FTSE EUROTOP 300

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CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

[illegible]

BONDS

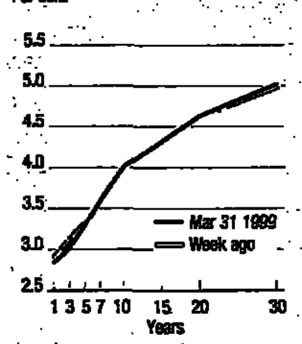
INTEREST RATE SWAPS

Mar 31	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	2.97	3.00	5.16	5.19	1.40	1.44	5.25	5.28	0.27	0.29
2 year	3.02	3.06	5.15	5.18	1.64	1.72	5.46	5.49	0.36	0.38
3 year	3.18	3.22	5.23	5.27	1.89	1.97	5.59	5.62	0.56	0.58
4 year	3.38	3.42	5.27	5.31	2.11	2.19	5.69	5.72	0.80	0.82
5 year	3.58	3.62	5.27	5.31	2.32	2.40	5.76	5.79	1.05	1.07
6 year	3.78	3.82	5.27	5.31	2.53	2.61	5.83	5.86	1.28	1.31
7 year	3.97	4.01	5.27	5.31	2.73	2.81	5.89	5.92	1.48	1.51
8 year	4.14	4.18	5.28	5.32	2.91	2.99	5.94	5.97	1.66	1.69
9 year	4.27	4.31	5.29	5.33	3.08	3.16	5.99	6.02	1.82	1.85
10 year	4.37	4.41	5.30	5.34	3.23	3.31	6.05	6.08	1.95	1.98
12 year	4.53	4.57	5.32	5.37	3.46	3.56	6.13	6.16	2.20	2.23
15 year	4.73	4.77	5.34	5.39	3.71	3.81	6.24	6.27	2.46	2.50
20 year	4.95	4.99	5.35	5.40	3.97	4.07	6.31	6.34	2.65	2.69
25 year	5.07	5.11	5.34	5.41	4.07	4.17	6.31	6.34	2.72	2.76
30 year	5.13	5.17	5.34	5.41	4.17	4.27	6.31	6.34	2.78	2.83

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor. Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Europe Limited.

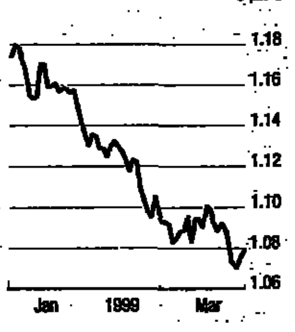
Euro bond yield curve

Per cent



Euro against the dollar

$ per €



Source: Interactive Data/FT information

EURO-ZONE BONDS

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Standard & Poor's ratings. Source: Interactive Data/FT information.

'Unexploited profits' in Brady bonds

By Richard Adams

A careful examination of the credit quality of individual Brady bonds reveals the potential for "unexploited profits" by using the right trading strategies, according to new research published by two academic economists.

By looking at the credit quality and pricing of individual Brady bonds – emerging market debt instruments backed by long-term US Treasuries – the authors say they are able to identify which bonds are overpriced and which underpriced.

Investors can sell or take short positions in the overpriced bonds, while creating long positions in the underpriced bonds. The academics say this strategy can yield profits ranging from 3.5 per cent for Costa Rican Brady bonds, to as much as 21 per cent for Venezuelan bonds.

The work*, by Professor Robert Cumby of Georgetown University and Tuvana Pastine of Bilkent University, develops a new measure of credit quality for individual bonds. It takes into account the features of each bond, and compares them across issuers, over time.

Presenting the work to the Royal Economic Society's annual conference in the UK, Dr Pastine said the research also examined the evolution of the credit quality of each debt instrument, starting from 1990, and identified which was seen to be under- or overpriced.

The attraction is that it offers a relatively "risk-free" hedged position for investors, the authors said.

Brady bonds are a series of securities issued by six developing countries – Argentina, Brazil, Costa Rica, Mexico, Nigeria, the Philippines and Venezuela – and took their name from Nicholas Brady, Treasury Secretary under the Bush administration that began to develop use of the instruments after the Mexican financial crisis in the 1980s.

The bonds are dollar-denominated, and most use long-term US Treasuries as collateral. The collateral was mostly financed by the International Monetary Fund and the World Bank, with proceeds used by the developing economies to restructure their debt and meet other financial creditors, such as US investment banks.

* *"Emerging Market Debt: Measuring Credit Quality and Testing for Mispricing" working paper. Robert Cumby, Tuvana Pastine. Department of Economics, Georgetown University, 580 Intercultural Center, Washington DC 20057-1045, US. Email: cumbyr@guvax.acc.georgetown.edu.*

● Standard & Poor's, the credit ratings agency, reversed a downgrade of Indonesia's sovereign debt and raised its outlook, *reports Reuters in Jakarta.*

The agency removed the "selective default" rating and raised its outlook to "stable" from "negative". The earlier downgrade came as Indonesia rescheduled the maturity of Rp4.2bn worth of principal from a $350m syndicated loan from 70 banks. Indonesia's long-term foreign currency sovereign credit rating was restored to a level that implied the country was "vulnerable to non-payment".

US Treasury prices tumble

BENCHMARK BONDS

By John Labate in New York and Khozem Merchant in London

US Treasury prices tumbled in early trading after the release of stronger than expected data on regional manufacturing.

European markets initially gained amid speculation of an interest cut by the European Central Bank before losing ground in line with Treasuries, but closed higher on the day.

The regionally-focused Chicago Purchasing Managers index drove the US market. The prices-paid component was above 50, suggesting stronger inflation. The Chicago index is followed by the National Survey of Purchasing Managers' report, due today.

Analysts expect weak NAPM figures, which could bring buyers back to the market since a strong report is now priced in.

In midday trading the benchmark 30-year bond was down $\frac{18}{32}$ to $94\frac{1}{32}$, sending the yield up to 5.653 per cent. The 10-year note was off ½ to $96\frac{1}{16}$, yielding 5.259 per cent and the two-year note was down $\frac{1}{32}$ to $99\frac{29}{32}$, yielding 4.991 per cent.

Tomorrow, US employment figures are published for March, with the consensus suggesting payrolls should rise by 135,000. But the report is regarded as unusual because of the many seasonal factors.

"The important thing is we're seeing job growth slow on a three-month moving average," said Claude Persico, at Dresdner, Kleinwort Benson in New York.

In Europe, the market firmed on more weak data out of France, which has further strengthened the case for a rate cut by the ECB when it meets next week. The market was also helped by a credit ratings upgrading for Spain.

French unemployment figures supported the sentiments of an earlier report by Insee, with a larger than expected rise in jobless from 11.4 per cent to 11.5 per cent.

"Deceleration in France," said Luca Jellinek at Paribas, "opens up a window of opportunity for a cut."

Interest rate talk has produced a sharp steepening of the yield curve in recent days. The short end has remained firm, and forward rates suggest the market expects a 25 basis point cut.

There was little sign of aggressive discounting, which would, in any case, be ambitious, said Phyllis Reed at Barclays Capital.

The weakest part of the curve was the 10-year area, in part because of over-supply, said Jellinek. France issues a €600m to €800m add-on to its 10-year OATi tomorrow.

The 10-year benchmark German Bund futures contract settled up slightly at 114 while in the cash market the yield on the 10-year bund was lower at 3.98 per cent.

Enron makes debut in euros

NEW ISSUES

By Bertrand Benoit

Enron, the US energy company, made its euro debut with a six-year €400m bond on a day dominated by floating rate notes.

Enron, a top-drawer name in the US, opted for a euro-denominated issue because of its increasing presence in Europe.

The company was eager to make first contact with European investors, but bankers said it would likely swap part of the debt into dollars.

Lehman Brothers, joint-lead manager with Paribas, said the six-year issue was targeting strong demand in off-the-run maturities.

The bond, the first BBB rated corporate issue in euros, was priced to yield 90 basis points over the April 2005 OAT and traded at the reoffer price.

"At first the pricing seemed a bit tight," said one banker. "But it is an uncommon name in Europe and people are clearly buying it."

The market for floating-rate paper was buoyant yesterday, with Halifax launching a 10-year $500m subordinated FRN issue.

The bonds, which are callable after five years, were priced to yield 40 basis points over dollar Libor and tightened slightly in secondary trading.

Subordinated debt, which appears as lower tier two capital in banks' balance sheets, trades at a spread over more senior debt and has been in demand from specialist investors.

"It is a way for banks to get capital in exchange for a pick-up in yield," said one banker.

Bankers said the launch had been successful owing to the unusually high yield attached to the Halifax name. "There is robust demand for paper yielding between 15 and 30 basis points over Libor," said one.

Banco di Napoli and Banco Popolare di Novara also came to the market with add-ons to euro-denominated floating rate note issues made a few weeks ago. Both bonds were priced to yield 30 basis points over Euribor.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
GMAC	1.1bn	6.15#(s)	99.663R	Apr 2007	0.425R	+83(6%May07)	Bear Stearns/Warburg
GMAC‡	1bn	(a,s)	99.825R	Apr 2004	0.225R	-	Barclays/Bear Stearns
Halifax plc(b)‡	500	(b1,l)	99.78	Apr 2009	0.35	-	Barclays Capital
EUROS							
Achmea Hypotheekbank‡	500	(c)	99.77R	Apr 2004	0.15R	-	ABN Amro/Salomon SB
Dexia Hypotheken Berlin(p)‡	500	(d)	100.12	Apr 2001	0.10	-	Salomon Smith Barney
Enron Corp(f)	400	4.375	99.613R	Apr 2005	0.525R	+90(7½Apr05)	Lehman/Paribas
PDVSA Finance Ltd(g,e)	200	6.25(q)	98.656R	Apr 2006	0.55R	+331½(Mar04)	Goldman Sachs
Banco di Napoli(h)‡	100	(h1)	99.725R	Apr 2004	0.25R	-	Morgan Stanley DW
STERLING							
Reseau Ferre de France	200	5.25(s)	98.72R	Dec 2028	0.45R	+79(6%Dec28)	Warburg Dillon Read

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +25bp. b) Callable on 16/4/04 at par. b1) 3-mth Libor +35bp. c) 3-mth Euribor +20bp. d) 6-mth Euribor flat. e) Spread relates to German govt bonds. f) Spread re French govt bonds. g) Callable on coupon dates at par. h) €300m launched 24/3/99 increased to €400m. h1) 3-mth Euribor +30bp. l) Long 1st coupon. p) Oeffentliche Pfandbriefe. q) Quarterly coupons. s) Short 1st coupon.

Warning to Japan's local governments

By Gillian Tett in Tokyo

Moody's, the US credit rating agency, warned yesterday that the financial position of some of Japan's local governments now appeared worse than the central government's due to their spiralling levels of debt.

In particular, it argued that if the prefectures were given independent credit ratings for the first time they might not be as high as the Aa1 Moody's awards to Japanese government bonds.

Moody's has not committed itself to issuing specific ratings of local government debt but its warning is a sign that foreign investors and credit rating agencies are becoming alarmed about the risks posed by their financial position. Local government debt has not been rated, because investors assumed it was protected by central government.

The warning comes as some senior financial officials are privately warning that the government may need to implement spending packages this year. "If we get to the autumn, and the data is still poor, then there will probably be more political pressure for spending packages," one official said.

However, further spending packages could push Japan's central and local debt to dangerously high levels. And though most Western investors have ignored the role played by local governments in the overall national debt burden, this is now changing amid signs that the local government situation is deteriorating.

In recent weeks Tokyo and Osaka, the two largest prefectures, for example, have admitted they will post budget deficits in fiscal 1998 for the first time in two decades, due to a sharp fall in revenues.

Other local governments are expected to reveal similar problems when they reveal their 1998 budget figures this summer.

Local governments in Japan have traditionally funded themselves through a mixture of local taxes, central government subsidies, and their own bond issues.

Moody's argues that this "strong role of government support" would mean that ratings of local governments would not diverge too far from the sovereign debt rating.

However, the problems are forcing local governments to issue more bonds. Moody's warned that outstanding local government debt was likely to rise from Y52,300bn in fiscal 1997, or 10.5 per cent of Japan's GDP, to Y60,700bn in fiscal 1998.

Also, since the regional banks and life assurance companies that have traditionally bought local debt are now cutting back their own bond purchases, investors are focusing "increasingly on questions of credit risk and relative liquidity", warned Steven Hochman of *Moody's*.

John Higgins of Nomura Securities said: "There is growing concern about supply and demand. I don't think there is a risk of a default [of a local government], but if the central government helps them, that just pushes the liability on to the central government."

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 31	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.5065	4.87	–0.06	+0.01	–0.13	–0.13
	08/08	8.750	123.7768	5.47	–0.06	+0.08	–0.03	–0.26
Austria	03/01	5.250	104.3500	2.81	–0.07	–0.12	–0.44	–1.17
	01/08	5.000	108.1700	4.14	–0.03	+0.01	–0.13	–0.85
Belgium	03/01	5.000	103.7900	2.99	–0.01	–0.08	–0.28	–1.13
	03/09	3.750	96.0800	4.24	–0.06	–0.01	–0.05	–0.77
Canada	12/00	5.000	100.1300	4.91	–0.02	–0.01	–0.45	–0.01
	06/08	6.000	108.3500	5.12	+0.01	–	–0.31	–0.23
Denmark	11/00	9.000	108.7900	3.27	–0.04	–0.09	–0.38	–1.03
	11/09	6.000	113.5600	4.37	–0.03	–0.03	–0.17	–0.78
Finland	08/00	4.000	101.2570	2.92	–	–0.08	–0.22	–0.81
	04/09	5.000	106.1970	4.23	–0.06	+0.01	–0.09	–0.65
France	07/00	4.000	101.4000	2.85	–0.05	–0.11	–0.33	–1.24
	04/06	7.250	122.1300	3.83	–0.08	–0.05	–0.22	–1.06
	04/09	4.000	99.2500	4.09	–0.08	–0.02	–0.10	–0.85
	04/29	5.500	107.7200	5.00	–0.05	–0.03	–0.07	–0.48
Germany	05/01	5.000	104.2100	2.92	–0.01	–0.08	–0.30	–1.02
	01/06	6.000	112.9800	3.78	–0.03	–0.01	–0.19	–0.96
	01/09	3.750	97.9800	4.01	–0.02	+0.02	–0.09	–0.90
	07/28	4.750	98.3300	4.99	–0.04	+0.02	–0.06	–0.49
Greece	03/00	9.900	100.5100	9.18	–0.07	+0.15	–0.41	–0.56
	01/09	6.300	102.8190	5.95	–	–0.04	–0.21	–2.14
Ireland	10/01	6.500	108.3300	3.04	–0.02	–0.05	–0.32	–1.54
	08/08	6.000	114.5000	4.10	–0.06	–0.04	–0.17	–0.98
Italy	07/01	4.500	103.1300	3.04	–0.01	–0.09	–0.28	–1.50
	07/03	4.500	104.4300	3.38	–0.01	–0.06	–0.28	–1.36
	05/09	4.500	102.4300	4.20	–0.05	–	–0.09	–0.92
	11/27	6.500	119.4700	5.19	–0.06	+0.01	–0.03	–0.44
Japan	12/00	6.900	111.3260	0.23	+0.02	–	–0.07	–0.36
	12/03	4.100	115.0530	0.83	+0.03	–0.09	–0.26	–0.38
	06/08	1.800	101.6210	1.61	+0.02	–0.15	–0.23	–0.03
	09/18	2.300	97.1020	2.49	+0.03	–0.13	–0.25	–
Netherlands	01/01	9.000	110.2900	2.95	–0.02	–0.07	–0.28	–1.08
	07/09	3.750	98.7900	4.14	–0.03	+0.02	–0.06	–0.75
New Zealand	03/01	8.000	105.5113	4.82	–0.02	–0.09	–0.28	–3.09
	07/09	7.000	109.0257	5.82	–0.06	–0.05	+0.02	–1.22
Norway	05/01	7.000	104.3800	4.80	–0.04	–0.17	–0.24	+0.58
	05/09	5.500	105.0500	4.85	–0.07	–0.09	–0.18	–0.40
Portugal	03/00	5.375	102.2800	2.95	–0.02	+0.03	–0.37	–1.10
	06/08	5.375	108.8800	4.22	–0.04	+0.01	–0.10	–0.82
Spain	01/01	5.000	103.7300	2.86	–0.02	–0.08	–0.33	–1.30
	07/09	5.150	105.9200	4.42	–0.08	–0.03	–0.17	–0.63
Sweden	05/00	10.250	107.5442	3.02	–0.02	–0.15	–0.40	–1.70
	05/08	6.500	115.9870	4.33	–0.06	–0.03	–0.20	–0.95
Switzerland	06/00	4.500	103.6200	1.37	–0.01	–0.02	–0.01	–0.36
	01/06	4.250	115.2500	2.30	–0.03	+0.07	+0.01	–0.58
UK	11/01	7.000	105.4200	4.76	–0.03	–0.03	–0.21	–1.93
	12/03	6.500	108.0500	4.57	–0.04	–0.03	–0.17	–1.44
	12/09	5.750	110.6600	4.48	–0.04	–0.04	–0.19	–1.41
	12/28	6.000	124.8500	4.48	–0.02	–0.01	–0.06	–1.32
US	01/01	4.500	99.0855	5.03	+0.04	+0.03	–0.18	–0.59
	02/04	4.750	98.3894	5.13	+0.05	+0.07	–0.18	–0.59
	11/08	4.750	96.1584	5.26	+0.06	+0.08	–0.13	–0.46
	02/29	5.250	94.1856	5.66	+0.08	+0.12	–0.01	–0.31

London closing * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Mar 31	Bid Yield	Spread vs Euros	Spread vs T-Bonds		Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.49	+1.46	+0.23	Netherlands	4.17	+0.14	–1.09
Austria	4.34	+0.31	–0.92	New Zealand	5.81	+1.78	+0.55
Belgium	4.26	+0.23	–1.00	Norway	4.85	+0.82	–0.41
Canada	5.13	+1.10	–0.13	Portugal	4.22	+0.19	–1.04
Denmark	4.35	+0.32	–0.91	Spain	4.21	+0.18	–1.05
Finland	4.23	+0.20	–1.03	Sweden	4.37	+0.34	–0.89
France	4.11	+0.08	–1.15	Switzerland	2.48	–1.55	–2.78
Germany	4.03	–	–1.23	UK	4.56	+0.53	–0.70
Greece	5.97	+1.94	+0.71	US	5.26	+1.23	–
Ireland	4.14	+0.11	–1.12				
Italy	4.22	+0.19	–1.04				
Japan	1.66	–2.37	–3.60				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Mar 31	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB–	94.0500	9.39	–0.08	+0.02	+4.34
Poland	07/04	7.125	BBB–	103.5000	6.31	–0.06	+0.31	+1.18
Russia	06/07	10.000	n/a	28.0000	40.75	+0.02	–3.82	+35.54
LATIN AMERICA								
Argentina	09/27	9.750	BB	83.3500	11.78	–0.02	–0.54	+6.17
Brazil	05/27	10.125	B+	71.3500	14.31	–0.01	–1.57	+8.70
Mexico	05/26	11.500	BB	111.1000	10.28	–0.07	–0.87	+4.69
ASIA								
China	07/06	7.750	BBB+	102.1000	7.36	–0.07	–0.32	+2.16
Philippines	10/16	8.750	BB+	93.1500	9.56	+0.06	–0.34	+4.16
Thailand	04/07	7.750	BBB–	101.3000	7.53	–0.03	–0.43	+2.32
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	101.5221	7.80	–0.20	+0.10	+2.82
South Africa	10/06	8.375	BB+	99.5000	8.47	–0.04	–0.83	+3.29
Turkey	09/07	10.000	B	92.3500	11.43	–0.14	–0.36	+6.22
BRADY BONDS								
Argentina	03/23	5.750	BB	69.5500	9.18	–	–0.31	+3.63
Brazil	04/14	5.000	B+	63.7500	13.18	–0.05	–1.39	+7.80
Mexico	12/19	6.250	BB	78.7500	8.44	–0.03	–0.47	+2.99
Venezuela	03/20	6.750	B+	69.2500	10.37	–0.43	–0.99	+4.90

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	94.80	95.14	+0.59	95.25	94.54	27,601	79,227
Sep	–	95.03	+0.59	–	–	–	–

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	Calls May	Calls Jun	Calls Jul	Puts May	Puts Jun	Puts Jul
93	-	-	0.26	-	-	-
94	-	-	0.13	-	3.49	-
95	-	-	0.06	-	4.45	-
96	-	-	0.03	-	5.45	-

Est. vol. total, Calls n/a Puts n/a . Previous day's open int., Calls n/a Puts n/a .

Germany

NOTIONAL EURO BOND FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113.95	113.98	+0.18	114.29	113.77	566,369	522,354
Sep	114.02	114.11	+0.18	114.27	113.98	2,795	8,281

NOTIONAL EURO BUND (BOBL) FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109.00	109.05	+0.09	109.15	108.92	159,761	223,988

NOTIONAL EFB SWAP FUTURES (LIFFE)* 5yr 4.0% €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		101.56	+0.20			0	214

NOTIONAL EFB SWAP FUTURES (LIFFE)* 10yr 4.5% €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		100.72	+0.50			0	367

* Traded on APT prior to listing on LIFFE CONNECT™ on 10/5/99. All open interest figs. are for previous day.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113.09	113.36	+0.47	113.50	112.93	10916	33220

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	97.40	97.72	+0.41	97.98	97.35	17,241	16,686

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		108.43	+0.05			0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	117.08	117.34	+0.34	117.60	117.08	29473	75692
Sep		117.04	+0.34			0	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Jul	Calls Sep	Puts Jul	Puts Sep
11650	1.85	2.35	1.31	1.81
11700	1.60	2.09	1.56	2.05
11750	1.35	1.86	1.81	2.32
11800	1.14	1.64	2.10	2.60
11850	0.95	1.44	2.41	2.90
11900	0.79	1.26	2.75	3.22

Est. vol. total, Calls 15 Puts 0. Previous day's open int., Calls 10004 Puts 5984

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	121–04	120–31	–0–04	121–05	120–27	214,762	590,264
Sep	120–20	120–11	–0–08	120–20	120–14	976	26,921
Dec	–	120–02	–	–	–	141	3,420

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	132.47	132.86		132.99	132.47	855	n/a
Sep		131.85				0	n/a

Euro

€ BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	–	107.08	+1.22	–	–	–	20

US CORPORATE BONDS

Mar 30	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA–	104.4929	5.70	–0.04	–0.03	+5.70
NY Tel	08/25	7.00	A+	98.6088	7.11	–0.05	–	+1.53
CWE	05/08	8.00	BBB	112.5584	6.17	–0.13	–0.10	+0.98
FINANCIALS								
GECC	05/07	8.75	AAA	117.7916	5.95	–0.09	–0.13	+0.76
Banc One	08/02	7.25	A	104.2138	5.83	–0.05	–0.11	+5.83
CNA Fin	01/18	6.95	A–	93.9472	7.55	–0.06	–0.13	+1.97
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0000	5.52	–0.02	–0.17	+1.04
Wal Mart	05/02	6.75	AA	103.7732	5.41	–0.04	+0.01	+5.41
Dayton Hud	06/21	9.70	A–	131.4308	6.90	–0.06	+0.05	+1.32
AGENCIES								
FHLMC	04/07	7.14	N/A	108.2269	5.84	–0.04	+0.01	+0.65
SLMA	03/00	7.50	N/A	102.2097	5.04	–0.25	–0.22	+0.56
FNMA	02/18	8.95	N/A	131.7286	6.09	–0.06	–0.02	+0.51
FFCB	06/06	8.95	N/A	118.7115	5.72	–0.22	–0.05	+0.53
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.5000	0.00	–	–	–
AK Stl	12/01	9.13	BB–	105.6250	0.00	–	–	–
Pacalta	06/04	10.75	B–	98.0000	0.00	–	–	–

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest — Treasury Bills and Bond Yields

Prime rate	7¾	One month	-	Two year	4.98
Broker loan rate	6½	Two month	-	Three year	5.01
Fed.funds	5⅛	Three month	4.48	Five year	5.09
Fed.funds at intervention	-	Six month	4.50	10-year	5.30
		One year	4.71	30-year	5.60

INTERNATIONAL BONDS

Mar 31	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
$								
EIB	04/07	7.250	AAA	108.0526	5.96	+0.03	–0.13	+0.75
ABN Amro	08/07	7.125	AA–	103.8427	6.50	+0.02	–0.04	+1.29
Quebec	01/07	7.000	A+	105.0756	6.17	+0.03	–0.04	+0.96
Citicorp FRN	02/04	5.066	AA–	99.1240	5.27	+0.01	–0.08	+0.14
C$								
Bayer L–Bk	08/04	9.500	AAA	117.9123	5.53	–0.08	–0.41	+0.21
Toronto (M of)	05/04	8.500	AA+	113.0884	5.50	–0.06	–0.37	+0.18
Bell Canada	07/99	10.625	A+	101.3404	5.32	–0.07	–0.43	+1.27
Deutsche B FRN	09/02	5.875	AA+	100.7828	5.62	–0.05	–0.35	+0.40
£								
EIB	12/07	7.625	AAA	116.3100	5.23	–0.07	+0.04	+0.57
Dresdner Bk	12/07	7.750	AA–	111.6628	5.98	–0.04	–0.12	+1.32
British Gas	03/00	7.625	A+	102.0100	5.47	–0.13	–0.16	+0.69
Abbey Nat FRN	02/02	5.587	AA	100.0236	4.84	–0.02	+0.26	+0.18
SFR								
EIB	01/08	3.750	AAA	103.5585	3.28	–0.03	+0.01	+0.95
Brit Columbia	02/02	3.250	AA	103.7451	1.90	–0.02	–0.03	+0.26
Hydro–Quebec	05/01	6.750	n/a	108.7071	2.49	–0.02	–0.07	+1.04
Gen Elect.	09/01	1.280	n/a	99.7207	1.47	–0.02	–0.05	+0.02
YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.0178	0.47	+0.02	–0.04	–
Spain (Kingdom)	03/02	5.750	AA	115.4214	0.50	+0.02	–0.08	+0.03
Cred Foncier	06/02	4.750	A	112.4459	0.95	+0.02	–0.10	+0.48
Italy (Rep of)	07/99	0.516	AA	100.0325	0.15	–0.09	–0.05	+0.02
A$								
IBRD (World Bk)	02/08	6.000	AAA	102.1481	5.68	–0.08	–0.08	+0.22
Nw Sth Wales Tr	05/06	6.500	n/a	104.5125	5.71	–0.08	–0.08	+0.36
S. Aus Gov Fin	06/03	7.750	AA	107.5955	5.67	–0.07	–0.09	+0.57
GMAC Aust	05/01	9.000	n/a	106.8814	5.48	–0.05	–0.17	+0.58

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Government Securities — UK Indices

Price Indices UK Gilts	Wed Mar 31	Day's chge %	Accrued interest	xd adj ytd	Total Return	Yield	Duration Years	% Weight	Index-linked	Wed Mar 31	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (15)	121.31	+0.09	2.11	2.25	1210.61	4.70	2.34	33.42	1 Up to 5 years (2)	224.95	+0.17	1.21	1.26	1175.42	14.78
2 5-10 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2 Over 5 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 10-15 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3 5-15 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 5-15 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4 Over 15 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Over 15 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5 All stocks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Irredeemables	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]							
7 All stocks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]							

Yield indices — 5 yrs, 10 yrs, 15 yrs, 20 yrs: [illegible]

FT Fixed Interest Indices: [illegible]

UK GILTS PRICES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

شكرا من الاهل

CURRENCIES & MONEY

Canadian rate cut surprises markets

MARKETS REPORT

By Alan Beattie

The Canadian central bank unexpectedly relieved the dullness of the pre-Easter trading yesterday by cutting interest rates by 25 basis points.

The Canadian dollar slipped a little on the news, but later recovered strongly to close unchanged against the US dollar. With Canadian inflation well under control and investor confidence seemingly returning to the country, analysts quickly realised that this is what they had wanted all along.

The cut took the key bank rate from 5.25 per cent to 5 per cent. The loonie closed in London against the US dollar at C$1.513, unchanged from Tuesday's close.

The move enlivened an otherwise unexciting day in the currency markets, as traders in many centres seemed to have started the big wind-down towards public holidays at the end of the week.

The euro struck a blow for those arguing that Kosovo was not the largest influence on its recent weakness by rallying against the dollar despite no apparent good news from the Balkans. But many said that profit-taking at the end of the month was behind the rise.

The US currency had a weaker day all round following the Federal Reserve's decision not even to adopt a tightening bias at its meeting on Tuesday.

It closed at $1.080 against the euro, $1.614 against the pound and Y118.4 against the yen.

Sterling's rise against the dollar reversed a weakening trend over the past few days, giving succour to those arguing that the $1.60-1.70 range against the dollar remains intact. From around $1.64 the pound has shed three cents in the last week and on Tuesday dipped below $1.61.

■ The Bank of Canada's move was almost totally unexpected by the market, but despite an initial sell-off in the Canadian dollar, currency traders seemed uninclined to be perturbed by the move.

The timing of the move made it evident that the Bank of Canada was waiting to see if the US Federal Reserve raised rates on Tuesday, or announced a bias to tightening, before proceeding with the cut.

Analysts said that the yield gap that still existed between Canadian and US interest rates meant that the Canadian dollar should not fall too far.

"Many currencies have benefited recently from interest rate cuts, especially if the market thinks they are justified," said Ian Morris, currency analyst at HSBC in London. "With core inflation below the Bank of Canada's 1-3 per cent target range, this one certainly looks reasonable."

Mr Morris added that the "Goldilocks economy" seemed to have spread across the border from the US, with the extremely benign inflation picture being combined with above-trend growth in the real economy.

The cut in rates was unexpected largely because of recent comments made by Gordon Thiessen, the Bank of Canada's governor, who said that inflation was likely to rise.

The Canadian monetary authorities have now fully unwound the 100 basis point rise in rates undertaken last August to restore investor confidence in the sinking loonie.

■ A smaller surge than expected in dollar buying by Japanese banks yesterday pushed the US currency down against the yen.

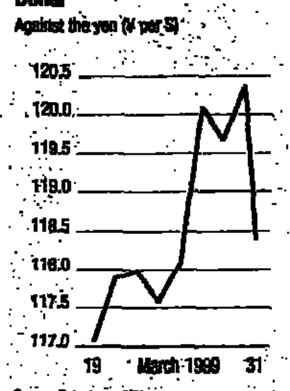
Stories that Japanese banks had to buy around $3bn of dollars to square fiscal year-end books had caused the dollar to strengthen above Y120 in recent days.

"In the event the shortages were only about $1bn," said Paul Chertkow, head of global currency research at the Bank of Tokyo-Mitsubishi in London. "This surprised the market, causing it to turn around and go the other way."

Mr Chertkow said that the yen had held well around the Y120 level and that the Bank of Japan would be content with the way the fiscal year had ended. Recent rises in share prices would also improve the health of banking sector balance sheets and please the authorities, Mr Chertkow said.

Dollar

Against the yen (¥ per $)



Source: Datastream/ICV

■ **POUND IN NEW YORK**

Mar 31	—Latest—	— Prev. close —
£ spot	1.6145	1.6125
1 mth	1.6140	1.6120
3 mth	1.6136	1.6116
1 yr	1.6168	1.6148

■ **OTHER CURRENCIES**

Mar 31	£	$
Czech Rp	57.4303 - 57.5048	35.5870 - 35.6110
Hungary	380.437 - 381.077	235.740 - 235.990
Iran	4844.40 - 4841.40	3000.00 - 3000.00
Kuwait	0.4920 - 0.4928	0.3049 - 0.3052
Peru	5.3740 - 5.3837	3.3300 - 3.3340
Poland	6.4536 - 6.4640	3.9990 - 4.0030
Russia	40.2643 - 40.4967	24.9500 - 25.0599
U.A.E.	5.9270 - 5.9313	3.6727 - 3.6731

WORLD INTEREST RATES

MONEY RATES

Mar 31	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3	2[illegible]	2[illegible]	2[illegible]	2[illegible]	-	3.00	3.00
Switzerland	1[illegible]	1[illegible]	1[illegible]	1[illegible]	1[illegible]	-	1.00	-
US	4[illegible]	4[illegible]	4[illegible]	4[illegible]	5[illegible]	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	4[illegible]	5	5[illegible]	5[illegible]	-	-	-
US Dollar CDs	-	4.77	4.79	4.82	4.94	-	-	-
Euro Linked Ds	-	2[illegible]	2[illegible]	2[illegible]	2[illegible]	-	-	-
SDR Linked Ds	-	3[illegible]	3[illegible]	3[illegible]	3[illegible]	-	-	-
BBA Euro Libor	-	3	2[illegible]	2[illegible]	2[illegible]	-	-	-
Euro Euribor	-	2.992	2.971	2.950	2.967	-	-	-
EONIA	2.99	-	-	-	-	-	-	-
EURONIA	2.9865	-	-	-	-	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Mar 31	Short term	7 days notice	One month	Three months	Six months	One year
Euro	3 - 2[illegible]	3 - 2[illegible]	3 - 2[illegible]	[illegible]	[illegible]	3 - 2[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	5[illegible] - 5	[illegible]
Swiss Franc	1[illegible] - 1	[illegible]	1[illegible] - 1	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	5 - [illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EUROBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.175	97.165	+0.010	97.190	97.170	9,164	40,029
Sep	97.205	97.215	+0.010	97.220	97.200	3,648	30,261

■ THREE MONTH EUROBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.175	97.180	+0.005	97.190	97.170	43032	204605
Sep	97.210	97.215	+0.010	97.220	97.195	37088	191342
Dec	97.000	97.010	+0.020	97.025	96.985	9853	108380
Mar	97.140	97.155	+0.030	97.160	97.125	15611	97128

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.170	97.180	+0.005	97.175	97.170	42	106097
Sep		97.215	+0.010			0	93016
Dec		97.010	+0.020			0	83215
Mar	97.135	97.155	+0.030	97.140	97.135	55	84166

■ EUROBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Jun	PUTS Sep	PUTS Dec	PUTS Mar
97125	0.120				0.065			
97250	0.055	0.110	0.100	0.160	0.125	0.145	0.340	0.255
97375	0.025				0.220			
97500	0.010	0.035	0.045	0.080	0.330	0.320	0.535	0.425

Est. vol. total, Calls 45136 Puts 11677 Previous day's open int., Calls 234147 Puts 116920

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Jun	PUTS Sep	PUTS Dec	PUTS Mar
97125	0.120				0.065			
97250	0.055	0.110	0.100	0.160	0.125	0.145	0.340	0.255
97375	0.025				0.220			
97500	0.010	0.035	0.045	0.080	0.330	0.320	0.535	0.425

Est. vol. total, Calls 154 Puts 77. Previous day's open int., Calls 165264 Puts 96370

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.730	98.770	+0.040	98.790	98.730	14847	113971
Sep	98.650	98.690	+0.050	98.700	98.650	11840	61463
Dec	98.330	98.360	+0.050	98.370	98.330	1664	19795
Mar	98.370	98.390	+0.040	98.390	98.370	252	11214

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		99.77				0	0
Sep		99.71	+0.01			0	0
Dec		99.48	+0.01			0	0

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100 - rate

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
99800	0.050	0.085	0.065	0.280	0.395	0.705
99125	0.020			0.375		

Est. vol. total, Calls 0 Puts 2000 Previous day's open int., Calls 3530 Puts 3580

POUND SPOT FORWARD AGAINST THE POUND

Mar 31		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.5755	-0.0567	634 - 875	20.7331	20.5633	20.534	2.4	20.459	2.3	20.147	2.1	102.4
Belgium*	(BFr)	60.3193	-0.1662	838 - 547	60.7810	60.2820	60.1977	2.4	59.9778	2.3	59.0632	2.1	101.9
Denmark	(DKr)	11.1137	-0.0263	062 - 211	11.1950	11.1061	11.0953	2.0	11.0608	1.9	10.9204	1.7	105.0
Finland*	(FM)	8.8905	-0.0245	853 - 957	8.9590	8.8850	8.8725	2.4	8.8401	2.3	8.7053	2.1	80.6
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 31		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria*	(Sch)	12.7458	-0.0402	422 - 493	12.8697	12.7269	12.724	2.0	12.6806	2.0	12.4618	2.2	102.1
Belgium*	(BFr)	37.3656	-0.1181	552 - 760	37.7290	37.3100	37.3019	2.0	37.1747	2.0	36.5331	2.2	101.9
Denmark	(DKr)	6.8845	-0.0181	820 - 870	6.9491	6.8750	6.8753	1.6	6.8555	1.7	6.7548	1.9	104.3
Finland*	(FM)	5.5074	-0.0174	056 - 069	5.5609	5.4992	5.4979	2.1	5.4782	2.0	5.3847	2.2	80.0
[illegible]													
[illegible]			+2.3500	600 - 800	1228.00	1225.00	-	-	-	-	-	-	-
[illegible]			-0.0150	200 - 700	33.1750	33.1100	33.26	-4.2	33.43	-3.4	33.86	-2.2	-
[illegible]			-0.0750	300 - 000	37.7300	37.5300	37.57	-0.2	37.88	-1.2	38.465	-2.4	-

[illegible] by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 4.75 MYR/USD, a discount of 20% on the official rate. [illegible] only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Mar 30: Base average [illegible] and rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some [illegible] the exchange rates printed in this table are also available on the Internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 31		BFr	DKr	FFr	DM	IE	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
[illegible]																		

■ D-MARK FUTURES (CME) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	0.5504	0.5533	+0.0030	0.5536	0.5492	5,001	33,938
Sep	-	0.5555	+0.0022	0.5558	-	1	1,250
Dec	-	0.5565	-	-	-	13	140

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	0.6765	0.6790	+0.0028	0.6802	0.6747	8,718	64,777
Sep	-	0.6848	+0.0022	0.6857	-	7	349
Dec	-	0.6917	+0.0026	0.6917	-	17	6

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	83,229
Sep	[illegible]	[illegible]	[illegible]			[illegible]	1,846
Dec	[illegible]	[illegible]				[illegible]	402

■ STERLING FUTURES (CME) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	1.6110	1.6134	+0.0020	1.6148	1.6042	3,983	33,049
Sep	-	1.6150	+0.0022	1.6160	-	12	1,337
Dec	-	1.6150	+0.0022	1.6160	-	30	30

UK INTEREST RATES

LONDON MONEY RATES

Mar 31	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]
Sterling CDs	-	-	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]
Treasury Bills	-	-	5[illegible] - 5[illegible]	5[illegible] - 4[illegible]	-	-
Bank Bills	-	-	5[illegible] - 5[illegible]	5[illegible] - 4[illegible]	-	-
Local authority deps.	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]
Discount Market deps	5[illegible] - 5[illegible]	5[illegible] - 5[illegible]	-	-	-	-

UK clearing bank base lending rate 5½ per cent from Feb 4, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Mar 12 4.8834pc. ECGD fixed rate Stlg. Export Finance. Make up day Mar 31, 1999. Agreed rate for period Apr 26, 1999 to May 25, 1999, Scheme III 6.65pc. Reference rate for period Feb 27, 1999 to Mar 31, 1999, Schemes IV & V 5.410pc. Finance House Base Rate 5.5pc for Apr 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.010	95.030	+0.030	95.040	95.000	20009	181671
Sep	95.100	95.110	+0.030	95.130	95.070	20201	190034
Dec	94.880	94.880	+0.040	94.890	94.840	7063	141161
Mar	94.970	95.010	+0.060	95.020	94.970	14677	132314
Jun	94.890	94.916	+0.045	94.930	94.899	6557	110807

Also traded on APT. All Open Interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
[illegible]	0.130	0.250	0.250	0.100	0.140	0.370
[illegible]	0.075			0.170		
[illegible]	0.040	0.130	0.165	0.260	0.270	0.525
[illegible]	0.020			0.365		
[illegible]	0.010	0.065	0.090	0.480	0.455	0.710
[illegible]	0.005			0.600		

Est. vol. total, Calls 5776 Puts 6702. Previous day's open int., Calls 422691 Puts 479775

EMS EUROPEAN CURRENCY UNIT RATES

Mar 31	Euro cent. rates	Rate against Euro €	Change on day	% +/- from cent. rate	% spread v weakest	Div. ind.
Greece	353.109	325.80	+0.3	-7.71	7.93	52
Denmark	7.46038	7.4317	-	-0.38	0.00	3
NON ERM MEMBERS						
UK	0.683644	0.66636	+0.0025	1.84	-2.26	-

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
1.620	0.55	1.29	1.74	1.44	2.12	2.15
1.630	0.26	0.79	1.36	2.12	2.70	3.11
1.640	0.05	0.62	0.79	2.85	-	-

Previous day's vol., Calls [illegible] Puts [illegible] Prev. day's open int., Calls [illegible] Puts [illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
0.555	0.22	0.47	0.71	0.68	1.05	1.21
0.560	0.09	0.34	0.58	1.18	-	1.51
0.565	0.02	0.23	0.41	1.66	-	-

Previous day's vol., Calls [illegible] Puts [illegible] Prev. day's open int., Calls [illegible] Puts [illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.09	95.09	-	95.00	94.99	77,473	452,580
Sep	94.94	94.94	+0.07	94.95	94.93	90,045	445,959
Dec	94.59	94.60	+0.02	94.61	94.58	26,609	352,055

■ US TREASURY BILL FUTURES (CME) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.70	95.70	-	95.70	95.70	55	1,507

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

● Members of London Investment Banking Association.

COMMODITIES & AGRICULTURE

Gecamines investigates unauthorised cobalt sales

By Paul Solman in London and Alexandra Nusbaum in Tokyo

Gecamines, the African mining group, is investigating suspected unauthorised sales of its cobalt stocks by former agents in the wake of its marketing deal with MRG Cobalt Sales.

The January deal, appointing MRG as Gecamines' sole copper and cobalt marketing agent worldwide, sparked a three-fold increase in cobalt prices to about $18 a pound.

London-based MRG had already secured a similar agreement with ZCCM of Zambia. Together, ZCCM and Gecamines supply about one-third of the world's cobalt, the element that gives blue glass its colour and is used in super-alloys, batteries and tyres.

It has now emerged that after news of the deal reached traders, stocks of cobalt claimed by Gecamines held in Japan have been sold.

"Gecamines is currently carrying out a full inquiry into alleged irregularities in its previous commercial operations, including allegations of unauthorised sales of cobalt metal," Ridgepointe Development, the Zimbabwean company that runs Gecamines, said in a statement. Ridgepointe did not answer requests for further comment yesterday.

Gecamines, based in the Democratic Republic of Congo, told agents last Friday it was ending their marketing agreements following the appointment of MRG.

Insiders said that was Gecamines' first communication with its agents since January, when it instructed them not to sell any cobalt stocks until further notice.

But sources close to Mitsui and Mitsubishi, which represented Gecamines in Japan, said they had been under pressure to supply cobalt and decided to ignore Gecamines' instructions.

"The companies took the view that they owed more to their customers than to Gecamines," a trader said yesterday.

Another source suggested the rapid rise in the price of cobalt could have been a factor in the sales.

Mitsui and Mitsubishi declined to comment.

"The termination of the marketing agreement was one-sided and without reason or reasonable compensation and therefore not possible," a source close to Mitsubishi said yesterday, adding that the company was exploring legal action against Gecamines for breach of contract.

Mitsubishi is thought still to have up to nine months' worth of cobalt inventory on hand. The source said that the company believed it had paid Gecamines for a portion of that inventory, and the title and risk belonged to Mitsubishi. The company bought about 600 to 700 tonnes of cobalt from Gecamines last year.

Mitsui had worked with Gecamines for 50 years, and last year bought more than 1,000 tonnes of cobalt from the African company's total supplies of 3,500 tonnes.

A trader said there were approximately 400 tonnes of cobalt in a warehouse in Yokohama or Osaka. He suggested that 300 tonnes could belong to Mitsui and 100 tonnes could belong to Mitsubishi.

Vietnam plans tea export expansion

By Jonathan Birchall in Hanoi

Vietnam has approved an ambitious plan to expand the country's tea exports which, if successful, could triple exports by 2010.

Last year, Vietnam produced around 55,000 tonnes of tea, of which 34,000 tonnes or over 60 per cent was exported, placing it in the ranks of the world's 10 largest tea producers.

However, a new plan drawn up by Vinatea, the state-owned tea development and marketing company, and approved by the prime minister, envisages expanding exports, mostly of black tea, to between 80,000 and 100,000 tonnes by 2010.

Domestic consumption of green tea is expected to be running at around 45,000 tonnes a year, up from 22,000 tonnes this year.

The plans, however, will depend on the finance available. Cash-strapped Vinatea's biggest challenge will be finding the capital to finance new tea development by farmers in some of Vietnam's poorest areas.

In addition, apart from a handful of plants operated by joint ventures with foreign investors, its existing facilities are mostly out-of-date and inefficient.

Nevertheless, Nguyen Kim Phong, Vinatea's general director, said the industry hopes to double existing productivity levels, from around 700,000 kg of dried buds per hectare annually, to around 1.4 tonnes. In addition, the corporation is proposing expanding the area under tea cultivation in Vietnam's mountainous northern provinces, from 73,000 hectares to 100,000 hectares.

Vietnam's tea output has jumped since the introduction of market reforms in the early 1990s, with output rising from 34,000 tonnes in 1993, when just 21,000 tonnes were exported.

East Timor pins hopes on organic growth from coffee

In its bid for independence from Indonesia, the island is banking on reviving its mountain plantations, writes **Sander Thoenes**

If East Timor succeeds in breaking away from Indonesia later this year, its greatest hope for achieving economic self-reliance could be coffee.

Farmers in the mountains, the cooler and more fertile part of the Timor island, are gearing up for a relatively good coffee harvest, fed by sufficient rain to make up for last year's drought.

Farming experts in East Timor expect a harvest of 8,000 to 10,000 tonnes of green beans, a hybrid of robusta and arabica that fetches up to $2.5 a kilogram.

Other than an oil and gas field that is under exploration and has yet to prove its potential, there is little other than growing coffee to make up for the disappearance of Indonesian subsidies once East Timor gains its independence.

However the poor state of the coffee plantations and a reluctance among farmers to take measures to increase yields may be barriers to coffee becoming more than a meagre substitute.

Even now, only part of the crop is exported. And revenues would hardly feed 800,000 inhabitants even if all that was produced was sold at world prices.

The case for future growth, however, is based on current low yields, and optimists argue that it will not take much to boost the harvest.

"The heart of the agricultural sector, in terms of export earnings, is coffee," says Chris May, a development specialist who wrote a report about East Timor's economic potential.

Independence activists assume coffee harvests could grow several times larger than their current level. Coffee experts, meanwhile, assume yields from productive patches could double in five years if plants were pruned and rehabilitated properly.

East Timor's best chances, Mr May and other say, lay not in massive plantations but in high quality, organic coffee from the mountain slopes.

A benevolent climate and volcanic deposits have brought decent harvests that do not require chemicals, just improved pruning and maintenance.

"It's forest coffee," Mr May says. "The soil is quite fertile. Fertilisers would have a negative effect. The slopes are too steep, it would all wash away."

The reality, however, is that most hillsides are de facto coffee forests rather than neat plantations. Low prices set by an Indonesian trade monopoly, which is tied to Indonesian generals, have discouraged coffee farming.

"If you tried to sell to anyone else you got arrested," recalls Antonio, a coffee farmer turned taxi driver who saw his harvest drop from 100 tonnes a year to 3 tonnes, on 35 hectares. "The income was not enough to live off, let alone replant and maintain the trees. Eventually our trees died."

Larger plantations set up under Portuguese colonial rule fared even worse. Run mostly by the trade monopoly for 20 years, they have been abandoned and will simply be raided by villagers this year.

Medium-sized family plantations also withered as the military, in search of rebels or easy profits, raided and torched the coffee plants and scared away the workers.

Much of the growth in recent harvests has come from co-operatives, which teamed up with the National Co-operative Business Association, a US non-profit organisation. The joint venture started by purchasing 65 tonnes in 1995 but expects to buy 2,000 tonnes this year, about a quarter of the total.

It buys straight from the hillsides, cleans and dries the beans and sells them abroad. Profits are returned to the co-operatives.

The NCBA has focused on improving processing and training farmers to improve yields by pruning, cleaning the slopes and replacing old trees. By getting its coffee certified as organic, the joint venture says it has been able to sell for up to $2.5 per kilogramme, against $1.7 for uncertified loads.

Such prices are drawing some East Timorese back to coffee farming, although the NCBA says it is also running into a cultural gap in its attempts to boost yields with the financial incentive of higher prices. Some farmers, not caring to increase sales, actually respond by selling less and maintain the same level of earnings.

"Farmers aren't driven to maximise yields from the farm," said Anthony Marsh, adviser to the NCBA in East Timor. "It's a poverty trap. To get farmers to want to earn more from their coffee, that is the challenge."

Coffee certified as organic sells for up to $2.5 per kilogramme

Crude oil prices touch 10-month high

MARKETS REPORT

By Paul Solman and Robert Corzine

Crude oil prices rose to a 10-month high yesterday in a further extension of the month-long rally that has added $4 a barrel to the price of bellwether Brent blend.

In late trading on London's International Petroleum Exchange, the May Brent futures contract was quoted at $15.05 a barrel, 24 cents up on Tuesday's close, before easing to $14.89.

Although inventory figures from the US showed a rise in crude stocks over the past week, the markets reacted positively to a large draw-down of refined products stocks, such as gasoline and distillates.

Meanwhile, the IPE said yesterday it had put on hold its merger negotiations with the New York Mercantile Exchange while it investigated an alternative plan that could see it part-owned by European companies.

The exchange has been in talks with Nymex since last year, but in January it began separate discussions about converting to a limited company and selling up to 70 per cent of its shares to European investors.

The IPE said it had held talks so far with French petroleum company Total, Belgian gas distributor Distrigas, Nord Pool, the Scandinavian electricity bourse, and OM Group, which owns the Swedish stock exchange and the OM London derivatives exchange.

"The board feels we need to examine this proposal more carefully. In the circumstances, it is only fair to put our discussions with Nymex on hold until this new avenue has been thoroughly explored," said Lord Fraser, IPE chairman.

Base metals managed a small respite from their recent downward trend, with the London Metal Exchange's flagship copper contract closing at $1,398 a tonne, up $7 on the day. Aluminium and tin also managed gains, though nickel was weaker, closing down $45 at $4,830 a tonne.

Among soft commodities, May robusta coffee finished $33 lower on the London International Financial Futures and Options Exchange at $1,530 a tonne.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1212-3	1234-5
Previous	1196-97	1222-23
High/low		1236/1227
AM Official	1209.5-10.5	1232.5-3.0
Kerb close		1234-5
Open int.	n/a	
Total daily turnover	n/a	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1098-1103	1121-2
Previous	1090-95	1116-18
High/low		1125/1122
AM Official	1101-2	1122-2.5
Kerb close		1123-5
Open int.	n/a	
Total daily turnover	n/a	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	504-5	507-8
Previous	508-9	511-2
High/low		512/506
AM Official	505.5-6.0	506-6.5
Kerb close		510-11
Open int.	n/a	
Total daily turnover	n/a	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4750-60	4825-30
Previous	4790-800	4870-75
High/low		4910/4820
AM Official	4840-45	4975-20
Kerb close		4830-35
Open int.	n/a	
Total daily turnover	n/a	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5270-80	5245-50
Previous	5240-50	5220-25
High/low		5260/5220
AM Official	5245-50	5220-40
Kerb close		5255-60
Open int.	n/a	
Total daily turnover	n/a	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	986-7	1004-5
Previous	987.5-8.5	1006-07
High/low		1008/998
AM Official	989-90	1008-8.5
Kerb close		1004-5
Open int.	n/a	
Total daily turnover	n/a	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1370-1	1397-8
Previous	1361-62	1390-91
High/low		1405/1393
AM Official	1371-1.5	1397-8
Kerb close		1395-6
Open int.	n/a	
Total daily turnover	n/a	

■ LME AM Official £/$ rate: 1.6116
LME Closing £/$ rate: 1.6150

Spot: 1.6119 3 mths: 1.5110 6 mths: 1.6114 9 mths: 1.6125

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	62.00	-	62.40	61.85	340	3,618
May	62.50	+0.80	63.00	62.20	7,055	36,305
Jun	63.15	-	63.20	63.15	59	2,074
Jul	63.25	+0.65	63.30	63.10	1,452	9,976
Aug	63.30	-	64.10	63.30	11	1,565
Sep	84.20	-	64.20	64.10	57	5,068
Total					9,584	72,540

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	279.60-280.10		
Opening	279.80-280.10		
Morning fix	279.800	173.519	260.813
Afternoon fix	279.450	173.313	259.881
Day's High	280.40-280.70		
Day's Low	278.15-278.45		
Previous close	279.60-280.10		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month .... 4.10 6 months 4.07
2 months .... 4.09 12 months 3.72
3 months 4.08

Silver Fix	p/troy oz.	US cts equiv.
Spot	311.725	502.500

Silver Lending Rates

1 month .... 2.75 6 months 1.30
2 months .... 2.40 12 months 0.85
3 months 2.00

Gold Coins	$ price	£ equiv.
Krugerrand	281-285	174-176
New Sovereign	66-69	40-42

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	280.6	+1.4	280.6	278.2	5,530	4,492
May		-			5	-
Jun	282.7	+1.4	282.8	280.6	21,772	114.0k
Aug	285.1	+1.8	285.1	283.4	379	9,382
Oct	285.5	+0.2	286.2	286.2	42	3,195
Dec	287.5	+0.3	288.4	286.5	150	15,728
Total					27,941	187,558

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	359.5	+1.5	361.0	358.0	650	2,114
Jul	363.5	+1.9	364.5	361.5	3,698	10,621
Oct	363.0	+0.7	362.5	362.5	7	1,139
Total					4,358	13,986

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	360.00	-	361.00	358.50	99	2,622
Sep	-	-	-	-	20	224
Dec	-	-	-	-	-	126
Total					99	2,987

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	504.5	+3.2	505.5	499.0	16,883	40,999
Jul	507.5	+7.2	508.5	500.5	2,590	16,136
Sep	508.5	+5.1	510.0	508.5	978	4,711
Dec	511.5	+8.0	511.5	506.0	770	9,357
Jan	-	-	-	-	-	14
Mar	514.0	-	514.0	513.0	221	2,428
Total					21,464	78,563

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	16.76	-0.04	16.86	16.37	63,898	151.0k
Jun	16.75	-0.01	16.89	16.36	35,220	96,140
Jul	16.65	-0.04	16.70	16.35	11,364	58,534
Aug	16.51	-0.07	16.58	16.25	4,990	30,106
Sep	16.45	-0.03	16.46	16.13	2,611	21,975
Oct	16.22	-0.18	16.33	16.10	1,255	19,117
Total					135,544	611,000

■ CRUDE OIL IPE ($/barrel)

	6pm price	Day's change	High	Low	Vol	Open int
May	14.89	+0.08	15.10	14.59	23,640	71,856
Jun	14.87	+0.08	15.06	14.59	14,742	73,328
Jul	14.80	+0.08	14.93	14.56	3,211	29,685
Aug	14.72	+0.06	14.85	14.53	373	10,261
Sep	14.67	+0.05	14.80	14.50	720	15,289
Oct	14.66	+0.07	14.67	14.50	365	7,836
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	44.35	-0.03	44.55	43.50	15,129	12,326
May	44.00	-0.19	44.45	43.10	17,537	43,121
Jun	44.05	-0.24	44.45	43.35	4,963	23,094
Jul	44.20	-0.39	44.30	43.80	2,180	16,361
Aug	44.75	-0.34	44.80	44.30	523	16,562
Sep	45.35	-0.34	45.35	45.05	562	9,067
Total					43,642	175,411

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	131.50	+1.00	133.00	129.25	8,439	25,291
May	130.75	+1.25	131.50	128.50	8,160	33,719
Jun	130.75	+1.75	131.50	128.75	3,444	23,445
Jul	131.75	+1.50	132.00	129.75	931	10,042
Aug	132.50	+1.00	132.50	131.25	346	7,240
Sep	134.75	+1.75	134.00	133.50	264	7,472
Total					25,008	154,089

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
May	9.230	-0.120	9.270	9.220	285	2,310
Jun	9.220	-0.080	9.250	9.200	105	1,750
Total					1,046	n/a

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
May	2.040	-	2.070	1.975	55,308	42,381
Jun	2.060	+0.082	2.090	2.001	12,050	20,492
Jul	2.080	+0.077	2.100	2.021	5,965	19,143
Aug	2.100	+0.072	2.115	2.045	4,289	15,508
Sep	2.115	+0.067	2.130	2.010	3,405	15,331
Oct	2.150	+0.060	2.160	2.085	2,583	13,555
Total					98,084	272,829

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	53.50	-0.96	53.60	51.90	20,653	13,148
May	54.00	+0.74	54.10	52.50	22,678	42,119
Jun	53.50	+0.34	53.60	52.50	5,882	21,993
Jul	53.00	+0.24	53.00	52.10	2,815	18,335
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	75.05	+0.30	75.05	74.80	105	2,872
Jul	-	-	76.65	76.50	40	2,221
Sep	-	-	-	-	-	178
Nov	77.40	-	77.40	77.00	72	3,033
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

PULP AND PAPER

■ PULPEX OMLX (USE; 24 air dry tons)

[illegible]

FUTURES DATA

All futures data supplied by CMS

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	835	+10	840	816	3,096	47,285
Jul	851	+10	855	830	1,156	16,819
Sep	870	+11	874	851	1,024	27,746
Dec	892	+11	896	874	141	26,610
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LIFFE ($ tonnes; $/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

[illegible]

INDICES

■ Reuters (Base: 18/9/31 = 100)

[illegible]

■ CRB Futures (Base: 1967 = 100)

[illegible]

■ GSCI Spot (Base: 1970 = 100)

[illegible]

Nuts and seeds [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Apr	66.525	-0.200	66.850	66.325	6,929	31,724
Jun	63.950	-0.025	64.025	63.600	4,241	43,490
Aug	62.800	-0.075	62.900	62.550	1,706	18,718
Oct	65.000	-0.125	65.150	64.800	527	10,615
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ LEAN HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]

LONDON TRADED OPTIONS

[illegible]

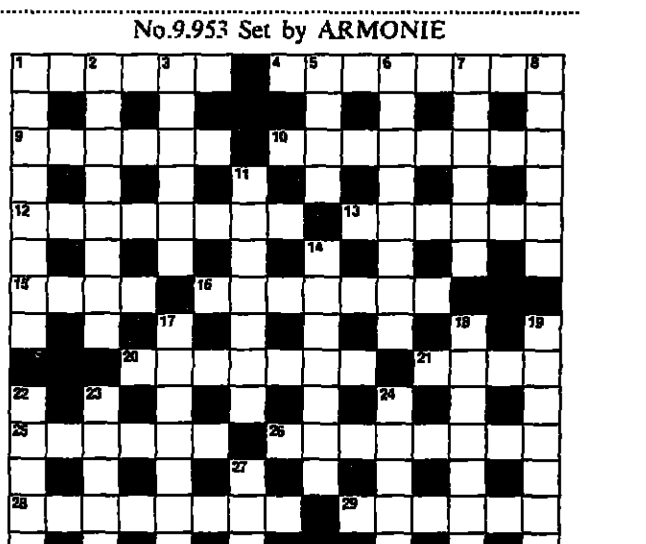
LONDON SPOT MARKETS

[illegible]

JOTTER PAD

CROSSWORD

No.9,953 Set by ARMONIE



ACROSS

1 Allowed to restrain naughty child – one hard to get rid of (6)
4 Tongues commonly said to go quickly (8)
9 Point with pointer that's limited (6)
10 The Parisian merchant provides the shrub (8)
12 Judge returned hand tool to prospector (8)
13 One harms eccentric in religious retreat (6)
15 Remove Jack from tournament (4)
16 The setter grasps a feature of an engine (7)
20 Penny is in the Army & Navy getting surgical equipment (7)
21 The laundry happened to get hot (4)
25 Put a stop to a Republican holiday (6)
26 It's at the end of a sentence in America (8)
28 Study of propulsion has transport leader in rough patch (8)
29 A quantity of shrubs, large not small (6)
30 Make-up creates soreness in skin eruption (3,5)
31 Social worker contacted by pager (6)

DOWN

1 Look through narrow window for knight (8)
2 Fellow's in the dark in Arctic town (8)
3 Hot rice to ferment (6)
5 Directed to accept a title role (4)
6 Countryman welcomes hard game (8)
7 Excavation, initially, under new stand (6)
8 To economise, Frenchman is introduced to bonus shares (6)
11 Change brought about an act of punishment (7)
14 Punish favourite dog (7)
17 Misshapen creature on a household plant (8)
18 Puppets dance in uncle's place (8)
19 An artist, he twirls giddily (8)
22 Burial site produces local argument (6)
23 Type of bullet fashioned crater (6)
24 Corrupt umpire is troubled (6)
27 I administered the land (4)

Solution 9,952

```
RIGOUR HANDOVER
O A N   X E A E
ANSELM SINFONIA
D L I D S E D D
THICKSET INTAKE
E G E P C D L R
SOHO CROOKED
T T T I N R A C
  GRAVITY ALTO
E C O E O A E M
STORMY TUCKSHOP
T P B B R I O R
EMPLOYEE IMPUTE
E E N D   B S S
MURDERER BOREAS
```

For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA
(FSA RECOGNISED)

[illegible]

BERMUDA
(REGULATED)(**)

[illegible]

CAYMAN ISLANDS
(REGULATED)(**)

[illegible]

GUERNSEY
(REGULATED)(**)

[illegible]

GUERNSEY
(FSA RECOGNISED)

[illegible]

IRELAND
(FSA RECOGNISED)

[illegible]

IRELAND
(REGULATED)(**)

[illegible]

ISLE OF MAN
(FSA RECOGNISED)

[illegible]

ISLE OF MAN
(REGULATED)(**)

[illegible]

JERSEY
(FSA RECOGNISED)

[illegible]

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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AIB Govett (Channel Islands) Limited (1000)F

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Barclays International Funds

Fidelity Funds - Contd.

Lombard Odier Invest (u)

Schroder International Selection Fd - Contd.

Banque Ferrier Lullin (Lux) SA

Banque Internationale A Luxembourg

Henderson Independent Fund

International Bond Trust

INVESCO International Limited

InverSud Investment Fund SICAV

Investissements Atlantiques SA

JP Morgan

Scudder Global Opportunities Funds - Contd.

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الاصل

هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

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LONDON STOCK EXCHANGE

Footsie misses out on records after strong attack

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Buyers returned in force to London's equity market yesterday, the last trading session of the first quarter, shrugging off concerns about Tuesday's hesitant performance and Wall Street's near three-figure fall overnight.

The FTSE 100 index launched a determined assault on its intra-day and closing highs, but ultimately missed out on both, finishing the session 31.2 ahead at 6,295.3. However, the blue-chip benchmark extended its consecutive gains to five days, over which it has risen 278.6 points, or 4.6 per cent. During the quarter, it gained 7 per cent.

Shortly after Wall Street opened, the Footsie index was at its best, up more than 88 points and looking set to push through its intra-day high of 6,365.4.

The Dow made rapid progress towards the 10,000 mark, only to run into flurries of profit-taking and general selling after a stronger-than-expected Chicago purchasing managers' survey that upset the US bond market.

Behind the market's earlier powerful showing was relief that the US Federal Reserve's open market committee had left interest rates on hold and a growing feeling that next week could bring interest rate cuts in the UK and in the euro-zone.

Decisions from the Bank of England's monetary policy committee and the European Central Bank are both expected on Thursday April 8.

Adding to the general feel-good factor in London was the prospect of more bids and mergers and expectations of an influx of new money into the market ahead of the end of the tax year.

Takeover stories fizzed across the market, with pharmaceutical stocks again being chased higher amid strong speculation that Glaxo Wellcome will tie up another big deal.

"If it hadn't been for the marked weakness of BAT and Ladbroke, I think the Footsie would have made a much more determined challenge to its intra-day record," a marketmaker said.

BAT shares were hurt by the big slide in Philip Morris shares on Wall Street overnight after the group lost a US court case involving a lung cancer victim.

Ladbroke was unsettled by a handful of earnings downgrades after its takeover of Stakis and the Stanley Leisure profits warning.

The second and third ranking FTSE indices did not fare as well.

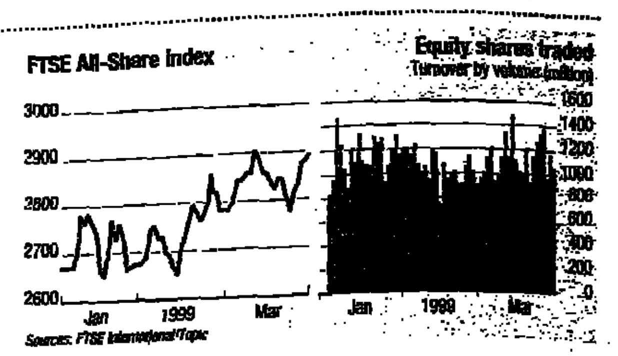
The FTSE 250 ended the day a disappointing 0.6 points lower at 5,475.2 as institutional investors concentrated their firepower on market leaders.

Sentiment in the second liners was also dented by the Stanley Leisure news, and the failure of merger talks between Enterprise Oil and Lasmo, both prominent FTSE 250 constituents.

The FTSE SmallCap, meanwhile, finished the day a respectable but rather sedate 3.5 points higher at 2,398.4.

Turnover in equities remained encouraging, again topping the 1bn shares mark and eventually reaching 1.06bn shares, with non-FTSE 100 shares accounting for about 54 per cent of the total.

FTSE All-Share index / **Equity shares traded** Turnover by volume (million)



Sources: FTSE International/Topic

Indices and ratios

FTSE 100	6295.3	+31.2	FT 30	3835.0	+32.1
FTSE 250	5475.2	-0.6	FTSE Non-Fins p/e	25.23	25.15
FTSE 350	2991.2	+12.5	FTSE 100 Fut Mar	6295.0	+4.5
FTSE All-Share	2894.79	+11.69	10 yr Gilt yield	4.64	4.67
FTSE All-Share yield	2.61	2.62	Long gilt/equity yld ratio	1.79	1.8

Best performing sectors

1 Building Matls & Merchs .... +2.4
2 Distributors .... +2.1
3 Insurance .... +2.0
4 Health Care .... +1.9
5 Pharmaceuticals .... +1.9

Worst performing sectors

1 Oil Exploration & Prod .... -3.1
2 Tobacco .... -3.0
3 Oil: Integrated .... -2.3
4 Resources .... -2.2
5 Extractive Industries .... -1.5

Earnings fears hit Ladbroke

COMPANIES REPORT

By Joel Kibazo, Peter John and Martin Brice

The bears had the upper hand in Ladbroke Group, sending the shares sliding. By the end of the session, they had surrendered 16 or 5.4 per cent to 283¼p, the worst performer in the FTSE 100 and one of the day's busiest Footsie trades with turnover of 22m.

Having emerged from a period of purdah as the UK leisure and gaming stock completed its acquisition of Stakis, dealers said the company was offering more information.

However, those who have spoken to senior management are unimpressed with the earnings outlook.

Although the integration of Stakis is expected to improve profits by about £33m to £330m this year and by about £50m to £380m next year, analysts said earnings per share are likely to remain at about 18.5p this year and 20.5p the following year.

"This was an acquisition that was supposed to bring an improvement in earnings and that is unlikely to happen so there is disappointment on that front," a broker said. Analysts blamed a higher than expected interest charge for the lower than anticipated eps growth.

Sentiment in Ladbroke, soon to change its name to Hilton Group, was also hit by a profit warning from casino and betting shop owner Stanley Leisure related to its racing division.

Stanley Leisure shares tumbled 32½ to 275p, the worst performer in the FTSE 250. Earlier this week Capital Corporation, 1½ better at 82½p, reluctantly accepted an increased £86.4m offer from Stanley Leisure.

Increasing pressure on tobacco companies in the US impacted on BAT and sent the group's shares down 24½ to 516½p.

An Oregon jury ordered cigarette maker Philip Morris to pay a record $81m to the family of a retired custodian who died of lung cancer in 1997 after smoking Marlboros for 42 years.

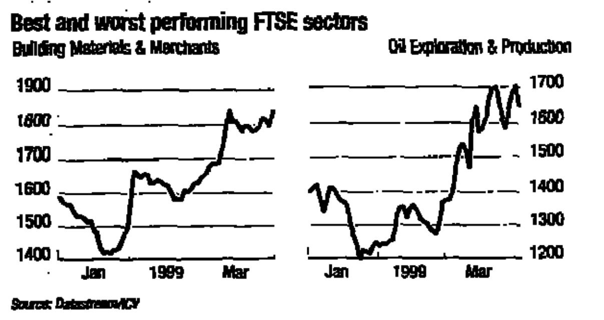
The award was the largest against a tobacco company in an individual smoker's suit. It follows the ruling by a California jury, which hit Philip Morris with a $51.5m judgment in a similar suit.

Sentiment was further hit by news that Australia's competition watchdog had said BAT's proposed merger with Rothmans International was likely to breach merger provisions of the Trade Practices Act.

Michael Smith of Morgan Stanley Dean Witter maintained his 640p target and "outperform" rating on BAT but said the shares were likely to be "volatile following these developments."

Best and worst performing FTSE sectors

Building Materials & Merchants / Oil Exploration & Production



Source: Datastream/ICV

Lasmo lower

The failure of the long-running merger talks with Enterprise was still fresh but Lasmo was already losing friends.

The share price of the jilted exploration and production stock headed down 6 per cent as the market fretted about its future.

HSBC Securities reduced its recommendation from "hold" to "reduce".

Analyst Neil Perry said: "The shares have had a strong run on merger potential and the rising oil price. But as an independent company its prospects are not so attractive."

There also was a feeling that Lasmo has had several months to attract a potential bidder and if nothing emerged during that time there was no reason why anyone would bid now.

The shares, which had started to slip before it announced late on Tuesday that the deal with Enterprise was off, shed another 8¼ to 125½p. Enterprise dropped 10½ to 356¾p.

The prospect of a bid for Pilkington prompted a surge in its stock, which gained 4.4 per cent or 3½ to 82½p after rumours that St Gobain of France or Wolseley in the UK might be tempted to move in.

However, there were suggestions that any move by St Gobain could run into monopoly problems in Europe. Furthermore, the large gap between the 100p, at which the bid was mooted to be coming and the closing price suggested not everyone in the dealing rooms believed the story. Wolseley was up 8 at 470p.

Investors have been expecting a bounce in Pilkington for some time following a prolonged period of underperformance, and only this week US value investor Franklin Resources bought a line of 1.4m shares.

BG was up at 371p in early trading as SBC Warburg Dillon Read raised its share price target from 390p to 420p and said there was the potential to go to 475p.

The broker cited returns from a special dividend and the potential the company has to extract value from BG International and E&P as well as TransCo via cost cutting, the demerger of competitive businesses and the sale of a regional distribution business. However, the shares fell in late trading to end 5¼ down at 364p.

Retail motor trade group Ryland was up 17 per cent, or 12 at 82½p, after it announced the sale of 75 per cent of its car leasing business for £18.8m. The deal values the business, which accounts for 20 per cent of Ryland's total turnover, at £25m. This was a 25 per cent premium to Ryland's entire market capitalisation before the deal was announced, highlighting the discounts at which smaller companies trade to their net assets.

Speculation about impending corporate activity at Colt Telecom combined with reports of US buying interest to lift the shares 100 or nearly 10 per cent to £11.16. Volume was 2.6m.

Energis was also in demand and the shares appreciated 116 to £17.62.

Strong two-way business in Signet Group, which reported a decline in profits this week, brought turnover of 47m to make it the most actively traded individual stock. The shares hardened ½ to 48p.

There was vague talk of corporate activity at tour operator Airtours. The shares eased 6 to 455p.

Granada Group was in demand, the shares gaining 24 to £12.55 after ABN Amro, one of the company's brokers, highlighted the attractions of the stock in a strategic review from the broker.

Compass Group was said to be making presentations to investment institutions, rising 18 to 717p.

Property companies moved into the spotlight as Probus Estates achieved the best performance in the market as it announced a disposal to allow it to invest in its Aviemore leisure development in Scotland. The shares gained 1½ or 43 per cent to 5p.

FT 30 INDEX

	Mar 31	Mar 30	Mar 29	Mar 26	Mar 25	Yr ago	*High	*Low
FT 30	3835.0	3802.9	3804	3747.3	3731.2	N/A	4004.9	2790.6
Ord div. yield	2.70	2.73	2.74	2.79	2.81	N/A	4.22	2.72
P/E ratio net	23.35	23.10	23.14	22.72	22.57	N/A	25.41	15.80
P/E ratio nil	23.28	23.04	23.08	22.66	22.51	N/A	25.19	15.71

FT 30 since compilation: high 4004.9 7/15/98, low 49.4 6/26/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3802.9	3827.6	3814.4	3822.1	3831.3	3844.8	3853.8	3850.8	3860.0	3802.4

 *For 1998/99.

STOCK MARKET TRADING DATA

	Mar 31	Mar 30	Mar 29	Mar 26	Mar 25	Yr ago
SEAQ bargains	97,705	92,879	89,317	83,951	84,572	na
Equity turnover (£m)†	-	4204.1	5182.1	-	4794.5	na
Equity bargains†	-	77,589	75,614	-	70,805	na
Shares traded (m)†	-	998.0	1138.3	-	1187.9	na
Total market bargains‡	-	91,466	85,864	84,141	85,301	-
Total turnover (£m)‡	-	5835.0	6830.3	5978.4	7365.2	-
Total shrs traded (m)‡	*1084.3	1397.2	1424.8	1393.2	1652.5	-
Tradepoint turnover (£m)	29.4	20.8	16.3	25.3	40.4	31.5
Tradepoint shrs traded(m)	11.7	8.8	7.2	10.3	15.3	8.6

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	789	Total Highs	90	Total contracts	44,579
Total Falls	698	Total Lows	33	Calls	22,828
Same	1,373			Puts	21,751

Mar 31 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]			[illegible]	[illegible]

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Jun	[illegible]	[illegible]		[illegible]	[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) (*6275) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stlg Mar 31	Day's chge%	Euro Index	£ Stlg Mar 30	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6295.3	+0.5	7329.8	6264.1	6017.6	2.45	2.20	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	5475.2	....	6374.9	5475.8	5534.8	3.18	2.88	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex Inv Tr	5524.0	-0.1	6431.7	5528.4	5577.4	3.31	3.01	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	2991.2	+0.4	3482.7	2978.7	2886.5	2.57	2.31	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 ex Inv Tr	2999.2	+0.4	3492.1	2986.8	2891.7	2.58	2.32	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Higher Yield	2858.5	....	3328.2	2858.8	2862.5	3.48	3.10	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350 Lower Yield	3125.4	+0.9	3639.0	3098.8	2928.6	1.64	1.51	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	2399.88	+0.1	2794.24	2396.36	2634.68	3.40	2.94	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex Inv Tr	2371.72	+0.1	2761.46	2369.23	2631.33	3.61	3.13	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	2894.79	+0.4	3370.48	2883.10	2813.33	2.61	2.34	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share ex Inv Tr	2906.78	+0.4	3384.44	2895.07	2821.11	2.62	2.35	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling	1301.83	-0.1	1515.76	1302.61	1409.88	3.59	3.04	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling ex Inv Tr	1314.83	-0.2	1530.89	1316.97	1429.68	4.09	3.47	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Small	1358.11	+0.1	1581.29	1358.71	1486.79	3.44	2.96	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Small ex Inv Tr	1368.01	+0.1	1592.81	1367.31	1511.41	3.70	3.20	[illegible]	[illegible]	[illegible]	[illegible]
FTSE AIM	866.8	+0.1	1009.3	866.1	1059.4	1.27	1.08	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE Actuaries Industry Sectors

	£ Stlg Mar 31	Day's chge%	Euro Index	£ Stlg Mar 30	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(18)	4781.45	-2.2	5567.17	4891.25	4680.33	2.91	2.62	[illegible]	[illegible]	[illegible]	[illegible]
12 Extractive Industries(6)	3280.29	-1.5	3819.32	3330.14	3197.71	3.89	3.62	[illegible]	[illegible]	[illegible]	[illegible]
15 Oil, Integrated(3)	5586.41	-2.3	6504.40	5717.33	5209.96	2.86	2.55	[illegible]	[illegible]	[illegible]	[illegible]
16 Oil Exploration & Prod(9)	1650.29	-3.1	1921.47	1702.62	3241.86	1.60	1.54	[illegible]	[illegible]	[illegible]	[illegible]
20 GEN INDUSTRIALS(187)	1981.31	+0.7	2306.89	1966.74	2238.03	3.50	3.22	[illegible]	[illegible]	[illegible]	[illegible]
21 Construction(37)	1501.77	-0.1	1748.55	1503.40	1620.79	3.23	2.86	[illegible]	[illegible]	[illegible]	[illegible]
22 Building Matls & Merchs(23)	1841.27	+2.4	2143.84	1797.76	1864.86	3.92	3.66	[illegible]	[illegible]	[illegible]	[illegible]
23 Chemicals(20)	2010.39	-0.9	2340.75	2028.04	2891.50	4.77	4.56	1.58	16.57	47.53	1071.26
24 Diversified Industrials(4)	1069.15	+0.5	1244.84	1063.62	1481.97	6.13	5.40	1.08	18.93	5.26	681.98
25 Electronic & Elect Equip(25)	3028.01	+1.7	3525.26	2975.56	2523.57	2.40	2.08	2.08	25.02	20.12	1708.06
26 Engineering(53)	2407.73	+0.3	2803.38	2399.74	3029.40	3.43	3.17	2.43	15.02	22.19	1599.64
27 Engineering, Vehicles(8)	4428.13	+1.7	5155.79	4356.18	4101.54	2.08	2.05	4.98	12.07	37.45	2488.06
28 Paper, Pckg & Printing(17)	1744.51	-0.6	2031.18	1755.57	2246.93	6.08	5.42	2.21	9.28	37.45	823.62
30 CONSUMER GOODS(83)	6131.62	+1.2	7139.21	6061.24	5806.63	2.16	2.07	1.96	29.58	57.92	2476.52
32 Alcoholic Beverages(6)	3701.78	+1.1	4310.08	3659.86	4104.97	2.95	2.93	2.45	17.32	47.14	1503.50
33 Food Producers(26)	3339.84	....	3888.66	3338.95	3947.58	2.71	2.50	2.19	21.09	20.43	1646.82
34 Household Goods & Texts(13)	1984.39	-0.3	2310.48	1991.23	3468.84	5.12	4.83	1.65	14.77	37.46	867.94
36 Health Care(14)	2556.72	+1.9	2976.86	2509.12	2377.15	2.06	1.89	2.11	28.79	2.45	1652.87
37 Pharmaceuticals(21)	11478.60	+1.9	13364.83	11270.02	9772.82	1.53	1.48	1.79	45.71	90.83	4171.22
38 Tobacco(3)	6545.89	-3.0	7621.55	6747.92	5010.42	4.88	4.58	1.53	16.74	191.28	1919.03
40 SERVICES(280)	3885.09	+0.9	4523.51	3850.57	3452.15	2.14	1.84	2.13	27.32	14.38	2169.62
41 Distributors(25)	2071.66	+2.1	2412.09	2028.40	2835.25	4.20	3.76	2.06	14.43	15.17	839.24
42 Leisure & Hotels(30)	3854.74	-0.4	4488.17	3870.99	3967.44	2.29	2.18	2.95	18.49	48.01	2232.10
43 Media(44)	5331.36	+1.5	6207.44	5253.20	4466.69	1.84	1.70	2.26	30.05	35.81	2051.64
44 Retailers, Food(13)	2485.16	-0.3	2893.53	2493.26	3155.84	3.67	2.96	2.18	15.66	6.37	1718.04
45 Retailers, General(41)	2356.32	+0.7	2743.53	2339.04	2395.09	3.16	2.61	2.08	18.97	6.15	1462.05
46 Telecommunications(9)	6104.93	+1.7	7108.13	6001.14	3879.86	1.42	1.16	1.63	53.90	4.51	3011.58
47 Breweries, Pubs & Rest.(22)	3722.44	....	4334.14	3721.26	4388.96	3.38	2.75	2.20	16.80	16.98	1940.64
48 Support Services(68)	5101.43	-0.4	5939.73	5122.63	4858.91	1.19	1.08	2.91	36.16	5.93	3385.09
49 Transport(28)	3638.73	+0.9	4236.67	3605.37	3526.62	2.79	2.47	2.07	21.68	28.42	1655.85
60 UTILITIES(20)	3801.74	-0.9	4426.47	3835.79	3875.87	4.08	3.54	1.84	16.68	16.48	1857.44
62 Electricity(7)	4245.85	-0.8	4943.55	4279.62	4327.16	4.54	3.76	1.31	21.06	21.24	2548.73
64 Gas Distribution(2)	3169.89	-1.1	3690.79	3204.11	2874.62	1.99	1.77	2.67	23.52	0.00	1847.74
68 Water(11)	3039.85	-0.9	3539.38	3066.78	3482.47	5.52	5.09	2.35	9.63	24.10	1930.69
69 NON-FINANCIALS(588)	2936.57	+0.3	3419.13	2926.54	2793.25	2.55	2.29	1.94	25.23	18.19	2438.81
70 FINANCIALS(120)	5644.88	+0.6	6572.48	5611.78	5818.63	2.82	2.55	2.14	20.70	74.14	2679.29
71 Banks, Retail(12)	8817.31	+0.7	10266.23	8756.91	8455.44	2.78	2.48	2.22	20.21	129.67	3174.91
73 Insurance(20)	2323.26	+2.0	2705.04	2278.72	2813.93	2.97	2.81	2.13	19.74	29.62	1972.41
74 Life Assurance(8)	6735.82	-0.6	7842.89	6774.76	7448.15	2.81	2.67	1.98	22.49	74.88	3070.47
77 Other Financial(32)	4342.63	-0.2	5056.24	4351.35	4802.32	2.44	2.15	2.13	24.03	36.41	2705.64
79 Property(46)	1904.37	-0.1	2217.31	1907.17	2383.11	3.31	2.90	1.71	22.11	9.88	1275.86
80 INVESTMENT TRUSTS(118)	3841.39	+0.4	4472.63	3824.38	3924.19	2.16	1.83	1.17	49.24	21.10	1420.97
89 FTSE All-Share(826)	2894.79	+0.4	3370.48	2883.10	2813.33	2.61	2.34	1.98	24.24	22.80	2680.57
105 FTSE All-Share ex Inv Tr(708)	2906.78	+0.4	3384.44	2895.07	2821.11	2.62	2.35	2.00	23.92	23.08	1385.05
Information Technology	1811.93	-1.1	2109.68	1831.56	1482.89	0.49	0.44	4.79	52.71	2.09	1823.60

■ Hourly movements

	9.03	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6263.2	6294.5	6285.5	6298.7	6318.1	6336.9	6343.7	6314.2	6352.5	6263.2
FTSE 250	5471.9	5473.5	5468.7	5474.5	5474.2	5474.7	5472.9	5470.3	5477.3	5468.7
FTSE 350	2978.0	2990.7	2986.7	2992.5	3000.2	3007.8	3010.4	2998.3	3013.9	2978.0
FTSE SmallCap	2396.49	2397.24	2397.36	2397.90	2397.89	2398.27	2399.27	2400.54	2400.75	2395.87
FTSE All-Share	2882.46	2894.21	2890.51	2895.88	2903.02	2910.12	2912.50	2901.43	2915.73	2882.46

Time of FTSE 100 Day's high: 15.12.00 Day's low: 9.03.00 FTSE 100 1998/99 High: 6335.7 (11/03/99) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 15.12.00 Day's low: 9.03.00 FTSE All-Share 1998/99 High: 2908.30 (11/03/99) Low: 2165.07 (05/10/98)

Further information is available on http://www.ftse.com.

 † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletions: Delphi Group (FTSE SmallCap); Provend Group Plc (FTSE SmallCap). Deletions effective 29/3/99: Stakis Plc, Sema Group (FTSE 250); LucasVarity (FTSE 100). Ultraframe, Photo-Me-Intl (FTSE SmallCap). Additions effective 29/3/99: Sema Grp (FTSE 100), Ultraframe, Photo-Me-Intl (FTSE 250).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Mar 31) 1 € = 13.7603 Sch

BELGIUM/LUX (Mar 31) 1 € = 40.3399 Frs.

FINLAND (Mar 31) 1 € = 5.94573 Mka

FRANCE (Mar 31) 1 € = 6.55957 Frs.

GERMANY (Mar 31) 1 € = 1.95583 Dm.

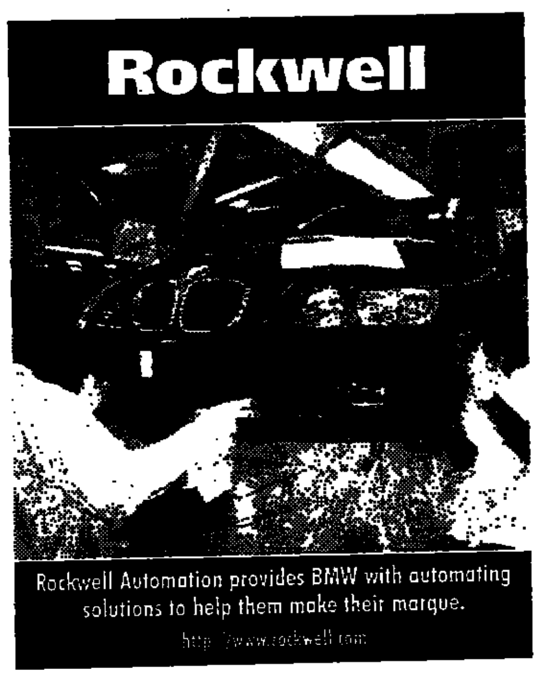
IRELAND (Mar 31) 1 € = 0.78756 Punt

ITALY (Mar 31) 1 € = 1936.27 Lire

NETHERLANDS (Mar 31) 1 € = 2.20371 Fl.

PORTUGAL (Mar 31) 1 € = 200.482 Esc.

SPAIN (Mar 31) 1 € = 166.386 Pts.



EUROPE (NON-EMU)

CZECH REP (Mar 31 / Koruna)

DENMARK (Mar 31 / Kr)

GREECE (Mar 31 / Drachma)

NORWAY (Mar 31 / Kroner)

POLAND (Mar 31 / Zloty)

SWEDEN (Mar 31 / Kronor)

SWITZERLAND (Mar 31 / Frs.)

TURKEY (Mar 26 / TL Lira)

PACIFIC

JAPAN (Mar 31 / Yen)

AUSTRALIA (Mar 31 / AustS)

HONG KONG (Mar 31 / H.K.$)

INDONESIA (Mar 30 / Rupiah)

MALAYSIA (Mar 31 / MYR)

NEW ZEALAND (Mar 31 / NZ $)

SINGAPORE (Mar 31 / S$)

SOUTH KOREA (Mar 31 / Won)

TAIWAN (Mar 31 / TW $)

THAILAND (Mar 31 / Baht)

AMERICAS

CANADA

TORONTO (Mar 31 / Can $) 3 pm

MONTREAL (Mar 31 / Can $) 12 pm

MEXICO (Mar 31 / Peso) 12 pm

AFRICA

SOUTH AFRICA (Mar 31 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MARCH 30 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MARCH 29 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	216.59	-0.2	198.99	184.89	231.75	229.44	0.8	3.29	217.00	198.76	164.20	233.16	227.71	219.96	163.86	211.53
Austria (21)	180.50	0.6	165.84	197.42	170.42	170.42	0.2	2.07	179.38	164.31	135.74	170.08	170.08	253.73	165.27	218.73
Belgium (22)	362.76	0.4	333.28	276.17	335.33	335.33	0.0	2.02	361.19	330.83	273.31	335.28	335.28	446.95	305.26	305.77
Brazil (29)	137.59	-4.3	126.41	104.75	147.22	438.13	2.4	5.57	131.89	120.81	99.80	141.72	427.89	269.34	89.32	257.90
Canada (113)	206.97	-1.4	190.15	157.57	221.45	226.87	-1.4	1.73	209.99	192.34	158.90	225.63	229.96	248.78	159.94	243.80
Denmark (34)	417.97	1.1	384.01	318.21	447.23	392.45	-0.7	1.88	413.24	378.50	312.70	444.02	389.79	537.33	406.62	507.10
Finland (29)	660.61	0.6	606.94	502.93	765.95	765.95	0.1	1.53	656.97	601.74	497.13	784.92	784.92	661.25	338.49	386.28
France (74)	317.44	0.3	291.65	241.67	303.50	303.50	-0.2	2.00	316.57	289.98	239.55	303.94	308.94	354.45	253.86	291.69
Germany (55)	248.02	-0.1	227.87	188.82	234.34	234.34	-0.5	1.69	248.19	227.33	187.81	235.48	235.48	325.61	226.35	264.15
Greece (35)	409.27	0.7	376.01	311.58	437.91	886.80	0.1	1.00	406.44	372.27	307.55	436.71	886.12	454.89	211.47	-
Hong Kong, China (66)	320.65	2.5	294.60	244.12	343.09	319.02	2.5	3.58	312.70	286.41	236.62	335.99	311.10	352.21	196.64	351.54
Indonesia (24)	45.52	-1.4	41.82	34.66	48.71	243.65	-0.3	1.19	44.89	41.12	33.97	48.24	244.42	64.52	19.04	58.05
Ireland (14)	539.71	0.8	490.35	406.32	550.34	550.34	0.4	1.87	529.54	485.03	400.70	548.33	548.33	605.85	396.15	519.13
Italy (53)	170.21	0.4	158.38	129.58	228.71	228.71	0.0	1.49	169.46	155.22	128.23	228.66	228.66	192.64	128.68	161.49
Japan (445)	110.01	-0.6	101.08	83.76	117.71	83.76	0.0	0.88	110.71	101.40	83.77	118.95	83.77	113.43	76.83	97.61
Mexico (29)	1475.24	0.8	1355.38	1123.12	1578.49	15390.78	0.7	1.63	1469.79	1340.74	1107.65	1572.81	15284.91	1733.73	787.15	1869.42
Netherlands (26)	488.14	0.2	448.48	371.83	456.21	456.21	-0.2	2.05	487.04	446.10	368.54	457.10	457.10	562.73	394.92	475.45
New Zealand (18)	62.63	0.2	57.55	47.68	67.02	62.48	0.8	3.84	62.54	57.28	47.32	67.19	82.08	76.03	45.68	73.92
Norway (37)	240.27	0.1	220.74	182.92	257.08	253.17	-0.2	1.94	240.09	219.90	181.67	257.97	253.74	357.71	181.86	333.43
Philippines (22)	90.19	-0.5	82.86	68.66	96.50	174.39	-0.5	0.85	90.64	83.02	68.59	97.39	175.27	105.42	42.48	105.42
Portugal (18)	225.86	0.2	206.77	171.34	286.97	286.97	-0.2	1.14	224.66	205.78	170.00	287.66	287.66	299.39	194.13	-
Singapore (40)	216.57	1.5	198.97	164.88	231.72	173.00	1.5	1.52	219.38	195.44	161.47	229.27	170.41	237.50	102.45	237.50
South Africa (34)	204.71	0.0	188.08	155.85	219.04	278.08	-0.3	3.46	204.74	187.53	154.93	219.99	278.80	346.20	151.55	302.26
Spain (30)	362.46	-0.3	333.02	275.95	424.54	424.54	-0.7	1.64	383.46	332.90	276.03	427.49	427.49	435.19	290.81	373.53
Sweden (43)	517.99	0.2	475.91	394.36	554.25	637.77	-0.0	1.94	516.85	473.49	391.17	555.45	638.11	628.19	379.18	582.26
Switzerland (30)	381.46	-0.6	350.47	290.41	408.15	351.02	-0.8	1.20	383.86	351.59	290.47	412.45	353.90	441.65	307.73	393.39
Thailand (28)	24.47	-1.7	22.48	18.63	26.18	35.75	-1.7	2.32	24.89	22.80	18.84	26.75	36.35	30.09	8.15	30.09
United Kingdom (201)	394.30	-0.1	362.27	300.19	421.90	362.27	-0.2	2.63	394.85	361.66	298.79	424.26	361.86	401.84	307.96	388.30
USA (603)	536.20	-0.7	492.84	408.22	573.73	536.20	-0.7	1.24	539.93	494.55	408.57	580.15	539.93	542.89	390.12	446.65
Americas (779)	476.08	-0.7	437.40	362.45	509.40	403.97	-0.7	1.28	479.36	439.06	362.73	515.06	406.79	481.42	347.59	405.25
Europe (723)	350.40	0.0	321.93	266.77	374.93	337.44	-0.1	2.03	350.36	320.90	265.11	376.45	337.86	386.24	282.63	344.92
Eurobloc (342)	98.64	0.2	90.63	75.10	100.87	100.87	-0.2	1.80	98.46	90.18	74.50	101.10	101.10	113.92	81.53	-
Nordic (143)	502.92	0.4	462.06	382.88	538.11	538.93	0.1	1.81	500.77	458.68	378.94	538.07	533.43	555.97	360.04	489.92
Pacific Basin (716)	117.48	-0.3	107.94	89.44	125.71	92.09	0.3	1.35	117.84	107.93	89.17	126.62	91.84	120.45	82.88	109.07
Euro-Pacific (1439)	214.07	-0.1	196.88	162.98	229.05	184.20	0.0	1.82	214.25	196.24	162.13	230.21	184.20	221.79	166.00	207.39
North America (721)	613.80	-0.7	472.06	391.17	548.76	514.79	-0.7	1.28	517.51	474.01	391.60	556.05	518.50	519.90	374.92	433.80
Europe Ex. UK (522)	317.97	0.1	292.14	242.08	340.22	315.44	-0.3	1.71	317.57	290.66	240.38	341.33	316.34	366.32	280.93	313.12
Europe Ex. Eurobloc (381)	98.33	-0.2	90.34	74.88	105.21	101.09	0.0	2.27	98.49	90.21	74.53	105.83	101.12	103.93	77.40	-
Europe Ex. UK Ex. Eurobloc (180)	93.79	-0.2	86.17	71.40	100.35	95.76	-0.5	1.44	93.99	86.09	71.12	100.99	96.21	109.21	75.16	-
Pacific Ex. Japan (271)	192.28	1.0	178.66	146.39	205.74	197.46	-1.5	3.22	190.33	174.33	144.02	204.50	194.62	209.99	128.26	209.99
World Ex. Eurobloc (1910)	110.49	-0.5	101.51	84.12	118.22	110.16	-0.4	1.47	111.08	101.74	84.05	119.35	110.63	111.15	83.09	-
World Ex. US (1644)	213.88	-0.1	196.50	162.83	228.85	189.42	0.0	1.85	214.11	196.11	162.02	230.05	189.51	221.91	165.95	211.49
World Ex. UK (2051)	310.39	-0.5	285.17	236.30	332.11	282.44	-0.5	1.39	311.81	285.60	235.95	335.03	283.74	314.12	236.11	277.74
World Ex. Japan (1807)	421.17	-0.4	386.95	320.84	450.65	418.01	-0.4	1.80	422.85	387.32	319.98	454.36	419.86	427.99	320.58	381.41
The World Index (2252)	317.63	-0.4	291.82	241.81	339.85	289.80	-0.4	1.52	318.98	292.16	241.37	342.74	290.95	320.63	242.36	287.07

Emerging markets:

IFC investable indices

Dollar terms

Mar 30 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	805.05	+0.4	+0.9
Brazil	285.34	+3.6	+3.7
Chile	514.83	+0.4	+14.1
Colombia[1]	372.89	-2.0	-15.1
Mexico	613.11	+0.8	+27.3
Peru[2]	141.28	+1.0	+5.1
Venezuela[3]	358.14	+4.6	-21.0
East Asia			
China[4]	23.72	-0.5	-8.4
India[7]	77.36	+2.2	+20.5
Indonesia[6]	22.82	+2.1	-6.6
Korea[5]	57.10	+2.9	+7.7
Malaysia	75.83	-0.2	-14.3
Pakistan[8]	106.23		+12.3
Philippines	124.57	-0.0	+1.3
Sri Lanka[10]	64.07	+0.2	-22.2
Taiwan, China[4]	126.00	+0.3	+8.8
Thailand	81.47	-1.2	-2.7
Europe			
Czech Rep	42.65	+3.5	-16.0
Greece	734.58	+0.6	+18.6
Hungary[9]	229.59	+0.2	-18.1
Poland[12]	518.28	+3.1	-1.0
Portugal	257.98	+0.3	-11.7
Russia	40.05	+2.3	+70.8
Slovakia	34.22	+2.9	-21.5
Turkey[14]	220.72	+0.2	+50.6
Mideast/Africa			
Egypt	71.31		+10.6
Israel	121.94	+0.1	+19.3
Jordan	235.02	-0.1	+8.5
Morocco	158.07	-0.2	-8.9
S Africa[15]	142.64		+14.1
Zimbabwe[16]	135.29	-0.5	+28.4
Regions			
Composite	205.66	+1.0	+10.1
Latin America	487.58	+1.5	+11.4
Asia	113.24	+1.3	+5.8
EMEA	128.24	+0.5	+12.2
Europe	167.02	+0.8	+11.5
Easin Europe	60.15	+2.0	+3.5
ME & Africa	60.63		+13.1
Comp + Malay	205.52	+1.0	+8.3
Asia + Malay	109.95	+1.1	+1.7

Base data: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

3:15 pm March 31

NEW YORK STOCK EXCHANGE PRICES

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

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Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Mar 30	Mar 29	Mar 26	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9913.26	10006.78	9822.24	10006.80 (29/3/99)	7539.07 (31/8/98)	10006.80 (29/3/99)	41.22 (8/7/32)
Home Bonds	104.05	104.08	104.08	107.17 (9/12/98)	104.05 (30/3/99)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3307.80	3294.37	3260.11	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	293.93	300.31	299.77	320.51 (8/10/98)	262.68 (9/1/98)	320.51 (8/10/98)	10.53 (8/7/32)

DJ Ind. Day's high 10048.48 Low 9857.78 (Theoretical). Day's high 10030.84 (10040.38) Low 9874.41 (9921.61) (Actual).

Standard and Poors	Mar 30	Mar 29	Mar 26	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1300.75	1310.17†	1282.80	1316.55 (18/3/99)	927.69 (9/1/98)	1316.55 (18/3/99)	4.40 (1/6/32)
Industrials‡	1568.49	1577.80†	1541.99	1578.98 (18/3/99)	1077.40 (9/1/98)	1578.98 (18/3/99)	3.52 (30/6/32)
Financial‡	140.10	141.87	139.59	147.88 (14/7/98)	95.80 (8/10/98)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	608.65	613.16	602.35	617.81 (18/3/99)	477.20 (8/10/98)	617.81 (18/3/99)	4.64 (25/4/42)
Amex Comp	711.63	717.86	718.74	783.67 (22/4/98)	563.75 (8/10/98)	783.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Comp	2480.29	2492.84†	2419.17	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	398.78	398.75	393.92	481.41 (21/4/98)	310.28 (8/10/98)	481.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Mar 26	Mar 19	Mar 12	Year ago
Dow Jones Ind. Div. Yield	1.61	1.60	1.60	1.30
	Mar 24	Mar 17	Mar 10	Year ago
S & P Ind. Div. yield	1.13	1.11	1.12	1.32
S & P Ind. P/E ratio	39.72	40.63	40.71	30.37

US DATA

MARKET ACTIVITY

Volume (million)	Mar 30	Mar 29	Mar 26
NYSE	729.030	747.980	707.290
Amex	28.479	28.778	28.893
NASDAQ	901.209	879.306	834.857

NYSE	Mar 30	Mar 29	Mar 26
Issues Traded	3,531	3,523	3,498
Rises	1,243	1,834	1,358
Falls	1,243	1,128	1,609
Unchanged	595	867	531
New Highs	36	45	28
New Lows	118	95	93

NYSE TRADING ACTIVITY — Volume : 729,030,000

Active Stocks Tuesday	Stocks traded	Close price	Day's change
AmOnLine	20,255,200	144¾	+12⅞
Compaq	20,210,500	32⅛	+⅞
PhMorr	10,801,500	37¾	−3⅛
Coca C	9,514,500	63⅞	−3⅝
LucentTch	7,925,600	107⅛	−2⅞
AT&T	6,863,100	80⅞	−1⅝
Gillte	6,178,200	60¾	−3⅛
Disney	5,741,900	32⅜	−⅝
Cendnt	5,052,300	15⅜	−⅛
ARich	4,780,200	74⅝	+⅞

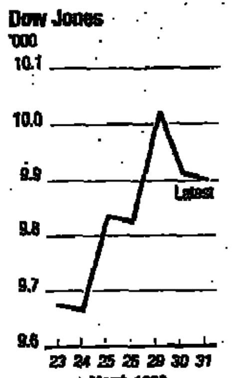
Biggest Movers Tuesday	Close price	Day's change	Day's chge %
Ups			
HA-LO Ind	11⅛	+1⅛	+14.6
MedicsPh	30⅝	+3⅞	+13.9
WatsonIndA	14½	+1½	+11.6
AmOnLne	144¾	+12⅞	+9.7
Downs			
Holly Corp	13⅛	−1⅞	−12.2
Earthgrns	21¼	−2½	−10.5
Revlon A	19⅛	−2	−9.5
PhMorr	37¾	−3⅛	−8.3

NASDAQ TRADING ACTIVITY — Volume : 901,209,000

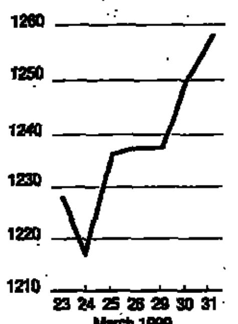
Active Stocks Tuesday	Stocks traded	Close price	Day's change
Micsft	33,719,700	93	+⅝
DellCmp	30,110,300	39⅝	+⅛
CiscoSys	14,586,700	109⅞	−⅛
PSomTc	13,240,300	25	+⅞
Amz.com	13,081,300	164⅞	+15⅛
Intel	12,665,800	121⅛	
SunMic	10,000,000	125⅞	+1⅛
Oracle	9,733,100	29⅝	−1⅝
Yahoo	9,500,100	172⅛	−3⅞
MCIWcm	8,912,300	92⅝	−⅝

Biggest Movers Tuesday	Close price	Day's change	Day's chge %
Ups			
CobdEuroE	13	+4½	+52.9
ExpScrpt	91⅝	+17⅞	+24.1
MPS Tch	65¾	+12⅞	+23.9
AspenT	14⅛	+2½	+21.3
Downs			
AvdTch	17⅛	−7⅛	−30.0
GBC Bancor	12⅝	−2⅞	−17.9
HrBunkW	16⅝	−3⅛	−16.0
SCM Micro	65½	−9⅝	−12.7

Dow Jones '000



FTSE Eurotop 300



JAPAN

	Mar 31	Mar 30	Mar 29	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	15836.59	15859.12	16008.84	17264.3	12880	38915.9	85.25

Day's high 16027.27. Day's low 15851.35.

TOKYO TRADING ACTIVITY — Volume : 490,420,000

Active Stocks Wednesday	Stocks traded	Close price	Day's change
FujiBk	8,451,000	701	+11
MitElec	7,009,000	395	+29
ShokLR	6,884,000	189	+26
Sakura	6,331,600	359	−5
Fujitsu	6,169,000	1902	−76
YasTrB	5,507,000	146	−1
NpSel	5,376,000	243	
MitTrB	5,300,000	175	
BTokM	4,392,000	1632	−34
JVC	4,286,000	1033	+53

Biggest Movers Wednesday	Close price	Day's change	Day's chge %
Ups			
ToyoSk	2555	+400	+18.6
HiMeti	528	+80	+17.9
Shinchu	2810	+400	+16.6
ShokLR	189	+26	+16.0
Hazama	96	+9	+10.3
YamKog	679	+59	+9.5
Downs			
NCR Jp	633	−38	−5.7
BnyuPh	1940	−115	−5.6

FRANCE

	Mar 31	Mar 30	Mar 29	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4197.86	4141.98	4153.65	4388.48	2882.54	4388.48	984.81

Day's high 4208.12. Day's low 4157.38.

PARIS TRADING ACTIVITY — Volume : 524,380,380

Active Stocks Wednesday	Stocks traded	Close price	Day's change
FrTele	2,775,586	74.8	+3.85
Usinor	1,842,818	12.2	+0.28
TotalB	1,498,552	114.1	−1.9
EfAqu.	1,146,875	125.8	−4.6
BNP	932,572	80.6	+1.95
Renault	825,799	32.83	−0.67
RhonPA	861,881	41.9	+0.11
Paribas	807,522	103.4	+0.2
Axa	798,770	122.6	+2.7
Schndr	729,194	51.25	+1.25

Biggest Movers Wednesday	Close price	Day's change	Day's chge %
Ups			
GrpGTM	92	+7.7	+9.1
Synthl	201.5	+14.5	+7.8
Ory ED	400	+28	+6.7
CPR	39.4	+2.4	+6.5
Downs			
StGobn	147	−5.8	−3.7
Equant	70.4	−2.8	−3.8
EfAqu	125.3	−4.6	−3.5
FrmBel	656.5	−18.5	−2.7

GERMANY

	Mar 31	Mar 30	Mar 29	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4884.20	4858.84	4876.92	6171.43	3896.08	6171.43	931.18

Day's high 4889.07 Day's low 4837.92.

FRANKFURT TRADING ACTIVITY — Volume : (m)

Active Stocks Wednesday	Stocks traded	Close price	Day's change
Debitl	383,353	30.5	
Siemns	212,867	61.9	+1.4
ThyKrp	207,943	18.3	+0.25
BASF	186,189	33.8	+0.25
Bayer	184,305	34.7	+0.3
DmlrCh	162,937	80.6	+0.4
Contnl	134,980	22.9	+0.4
Dt Tel	132,135	37.75	+0.8
Veba	110,420	48.7	+0.1
Mnsig	79,621	17.6	+0.3

Biggest Movers Wednesday	Close price	Day's change	Day's chge %
Ups			
Gildsch	500	+30	+6.4
ErgoVr	126	+7	+5.8
CelPrf	75	+3.5	+4.9
Preusg	497	+21	+4.4
Downs			
EscdPf	130	−7	−5.1
BMW	607	−30.5	−4.8
FoseMC	56	−2.3	−3.9
Drgwrk	12.6	−0.4	−3.1

UK

	Mar 31	Mar 30	Mar 29	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6295.3	6284.1	6252.9	6335.7	4648.7	6335.7	986.9

Day's high 6352.5. Day's low 6258.1

LONDON TRADING ACTIVITY — Volume : (m)

Active Stocks Wednesday	Stocks traded	Close price	Day's change
Signet	39,559,130	48	+½
BP Amoco	28,621,540	1048½	−30½
Ladbroke	21,972,270	283¼	−16
BG	19,601,000	384	−5½
Br Am Tob	17,151,670	518	−24½
Centrica	16,189,090	109	
Shell	14,302,310	416¾	−4
Tesco	13,600,380	183¼	−1¼
Vodafone	13,411,310	1151	+25
Smithkline	12,376,440	893½	+1½

Biggest Movers Wednesday	Close price	Day's change	Day's chge %
Ups			
Powerscreen	149½	+44½	+42.4
Fortona	4	+1	+33.3
IOC Info	72	+16½	+29.7
Beaufort	4¾	+1	+26.7
Downs			
Bick	260	−93	−26.4
Deeres Hogs	2¼	−½	−18.2
Mayborn	47½	−10	−17.4
IS Solution	255	−37½	−12.8

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	1314.80	1323.50	+7.80	1324.40	1312.50	73,019	384,321
Sep	–	1336.00	+7.60	1336.00	–	243	4,671
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Jun	15790.0	15750.0	−100.0	16050.0	15650.0	31,195	200,249
Sep	15870.0	15760.0	−110.0	15870.0	15700.0	25	3,985

Open interest figures for previous day

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	4162.0	4180.4	+28.4	4205.0	4140.5	64,961	77,557
Apr	4149.0	4193.0	+37.5	4208.0	4140.0	95,314	91,220
DAX							
Jun	4861.0	4866.0	+1.0	4914.0	4851.0	33,149	290,904
Sep	4916.5	4899.5	+10.0	4930.0	4094.0	114	1,663

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Apr	730.50	736.25	+5.25	741.00	726.00	13,761	109,180
May	726.00	736.00	+5.25	738.00	726.00	386	704
EUREX							
Jun	6985.0	7083.0	+118.0	7097.0	6952.0	15,106	99,478
Sep	6999.0	7101.0	+95.0	7101.0	6999.0	186	3,736

WORLD MARKETS AT A GLANCE

Country	Index	Mar 30	Mar 29	Mar 26	1998/99 High	1998/99 Low	Yield	P/E
Portugal	BVL 30	4619.00	4604.52	4614.86	6178.89 22/4/98	3598.88 2/10/98	2.21	25.3
	PSI 20	10883.98	10826.43	10852.86	14293.80 22/4/98	8114.91 2/10/98		

Portugal Telecom up 3 per cent on news that Microsoft was taking stake in cable TV unit, TV Cabo.

Country	Index	Mar 30	Mar 29	Mar 26	1998/99 High	1998/99 Low	Yield	P/E
Russia	RTS	80.36	81.18	79.84	411.81 5/1/98	38.53 5/10/98	na	na

Conflict in Yugoslavia and uncertainty over IMF new loan to Russia kept investors on sidelines.

Country	Index	Mar 30	Mar 29	Mar 26	1998/99 High	1998/99 Low	Yield	P/E
Singapore	SES All-S'pore	408.52	408.21	(s)	407.98 19/3/98	283.20 4/9/98	2.01	22.9
	Straits Times	1518.31	1518.06	(s)	1689.75 19/3/98	805.04 4/9/98		

Banks and properties pushed higher while broader market was mixed.

THE NASDAQ-AMEX MARKET GROUP

3 pm March 31

AMEX

3 pm March 31

EASDAQ

STOCK MARKETS

Equities buoyant over possible rate cut

WORLD OVERVIEW

A combination of the lack of action by the US Federal Reserve and hopes that the European Central Bank may soon cut rates allowed equity markets to end the first quarter on a reasonably buoyant note, *writes Philip Coggan.*

Few expected the Fed to raise rates but there were some fears that it might reveal a bias to tighten policy. Its failure to do so removed the last major question mark over the markets before the holiday weekend.

As well as Easter, trading is expected to be light on Wall Street today because of Passover.

In Europe, a surprise rise in French unemployment raised hopes that, given recent weak data from the German economy, the ECB would be forced to cut rates at its April 8 meeting.

Global markets, as measured by the FT/S&P World index, rose less than 4 per cent during the first quarter, a healthy pace in historical terms but nothing special by recent standards.

The US and Japan outperformed the rest of the world, but Europe was a severe laggard, falling more than 2 per cent.

The robust nature of the US economy kept Wall Street motoring along, while tentative signs of a recovery in Japan spurred foreign buying of the Tokyo market.

But European economies stayed fairly sluggish, particularly in Germany, and the first quarter for the new single currency, the euro, was one of almost unrelenting weakness.

David Bowers, European equity strategist at Merrill Lynch, said: "Japan has been partly responsible for European underperformance. At the start of the quarter, US fund managers were overweight the euro-zone and underweight Japan, and in the last two months they have been dragged into changing their positions.

"At the same time, European fund managers have been reluctant to chase Wall Street, so when they bought Japan on the recovery story, they had to sell Europe."

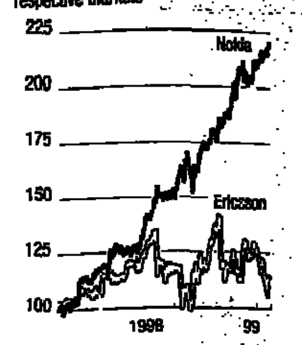
Some of the smaller euro-zone countries, such as Denmark, Belgium and Portugal, have suffered the worst. But the mighty Germany has also incurred a double-digit loss. Oddly enough, Europe has produced two of the world's best five performers – Greece, which was seen as a euro convergence play (although its bull run has been halted by the Kosovo crisis), and Finland, lifted as usual by Nokia.

But the star performer of the quarter was Mexico, which overcame the Brazilian devaluation jitters with the help of the economic overspill of its United States neighbour.

MARKET FOCUS

Nokia outpaces its Nordic rival

Nokia/Ericsson.
Share prices relative to their respective markets



Source: Datastream/ICV

In the booming market of cellular telephony, the Nordic region's largest companies, telecommunications equipment makers Nokia and Ericsson, stand head and shoulders above their competitors.

Yet in the past 12 months, while shares in Finland's Nokia have risen almost 200 per cent, those of Sweden's Ericsson have only managed a meagre 6 per cent.

After similar performances in 1997, Nokia gradually, and then with increasing pace, left its Nordic neighbour standing in 1998. Buoyed by quarter after quarter of profit growth above analysts' expectations, Nokia's stock has rocketed to successive all-time highs.

Ericsson is still suffering from its December warning that first-half profits will be below last year's levels. At SKr200, Ericsson's B-share remains below its high of SKr263 in July although well above the 12-month low of SKr122.

Nokia's growth has led to its domination of the Helsinki stock exchange. In terms of capitalisation, it makes up 56 per cent of the exchange and has accounted for 60 per cent of its turnover so far this year.

In Stockholm, Ericsson has more competition, but still makes up 15 per cent of the exchange in terms of capitalisation and accounts for 24 per cent of turnover.

Nokia is an important share in Stockholm where it accounts for about 10 per cent of turnover.

Nokia's success has been based on the phenomenal growth of its mobile telephone handset sales at a time when the market has focused on this aspect of the cellular business, explains Anita Farrell, technology analyst with Merrill Lynch.

Although Ericsson has largely maintained its market share in handsets, its margins have failed to keep pace with those of Nokia, whose constant launch of new products has helped establish it as the world's leading brand.

Nokia is now valued at about 30 times 2000 earnings compared with 22 times for Ericsson, according to Merrill Lynch. This is a reversal of the traditional pattern where Ericsson enjoyed a better price earnings ratio and reflects attitude changes to the way segments of the cellular business are valued.

"Ericsson was traditionally granted a premium as the mobile systems business was seen as having better margins, more stable and of having customers likely to stay with a company," Ms Farrell said. "Handsets were seen as consumer items, very volatile and at the whims of individuals."

Ericsson's price is expected to improve in the second half of the year as its new range of handsets comes on to the market. Moreover, as the cellular industry moves into 2000, the focus may switch back to mobile infrastructure where Ericsson has a third of the world market.

While the valuations of the two stocks are likely to converge in the second half of the year, Nokia will remain strong with profits growth powering the stock, analysts said.

Nicholas George

US stocks mixed as bond prices weaken

AMERICAS

US shares gave up early sharp gains to trade mixed at midday as bond prices plunged, *writes John Labate in New York.*

Bond prices tumbled almost a full point after the release of a string of economic indicators.

Among the more bearish signs for the fixed-income market was a stronger-than-expected report by Chicago Purchasing Managers. In midday trading, the 30-year bond had lost 15/32 at 94 7/32, sending the yield sharply higher to 5.653 per cent.

The blue-chip equity sector was weighed down for a second day by plunging shares in Philip Morris.

The tobacco company, one of the Dow 30 stocks, tumbled more than 8 per cent or $3 3/16 to $34 7/16 in early trade, on top of the 8 per cent fall suffered on Tuesday after a jury in Oregon ruled against it in a lawsuit.

In midday trading, the Dow Jones Industrial Average was down 15.26 at 9,898.00. The broader Standard & Poor's 500 index had fallen 1.73 to 1,299.02.

Among the major indices only the high-tech weighted Nasdaq composite managed to push higher, gaining 13.67 to 2,493.96 and closing in on its record high.

Small company shares were firmer as a group as well, sending the Russell 2000 index less than a point higher to 398.82.

Two initial public offerings met with mixed results. Pepsi Bottling was the most actively traded issue on the New York Stock Exchange, and managed to fall $13/16 from its offer price to trade at $22 3/16. But shares of ZDNet, the online operation of media company Ziff-Davis, traded at $33, a sharp spike from its offer price of $19. While investors welcomed the new offering, they sold parent company Ziff-Davis, sending its share price down $5¾ to $23¼.

Among other recent IPOs, internet auction service Priceline.com surged another 18 per cent to $81¼. Its shares closed more than 300 per cent above its offer price on Tuesday. Software producer PeopleSoft plunged 6 per cent to $14 5/16 after the company issued an earnings warning.

In the transport sector America West gained $9/16 to $18¾ after it said it expected first-quarter earnings to top recent estimates.

TORONTO pushed ahead strongly from the opening bell, lifted by the announcement of a quarter-point cut to 5 per cent in the central bank's overnight lending rate.

That set off a chain reaction of reductions in bank prime rates and sparked a wave of buying by investors anxious to climb aboard the market at a time of declining cost of capital to the corporate sector.

Banks led the way up with Royal Bank of Canada gaining 85 cents to C$71.95 and Bank of Nova Scotia 30 cents at C$32.10. Canadian Imperial rose 35 cents to C$39.

By the noon count, the benchmark 300 composite index was up 42.36 at 6,618.30.

The flurry in the banking sector was given an added twist when trading in sector heavyweight Toronto-Dominion was halted pending a statement. Later, the bank announced it is to float part of its global discount broking arm.

Mexico City edges up ahead of Easter break

MEXICO CITY continued to push higher with the benchmark IPC index up 22.11 at 4,904.11 at midsession, although brokers complained that trading volumes were minimal as investors and traders wound down ahead of the Easter break.

SAO PAULO reversed some of the recent strong gains in spite of comforting words from the IMF as the agency approved the $4.9bn second tranche payment within the international rescue package being mounted for Brazil.

Market heavyweight Petrobrás gained 1.1 per cent to R$239.50, but the broad market softened. Brokers saw little reason for the weakness. Volumes were low. At midsession, the Bovespa index was off 58 at 10,969.

CARACAS stayed firm as investors warmed to hopes for economic and political reform. The IPC index was up 45.96, or 1.1 per cent, at 4,118.68 at midsession.

Preussag leads Frankfurt higher

EUROPE

Investors in **FRANKFURT** concentrated on special situations and at the end of another low-volume session the Xetra Dax was 24.07 higher at 4,865.27.

Metals group Preussag, which has recently diversified heavily into leisure activities, pushed ahead strongly on news of healthy first-quarter sales, jumping €27 to €497.

Motors were mixed. BMW touched a session low of €587 as analysts came away from the group's trading update meeting in a grim mood. The shares, held back lately by concerns over the the Rover offshoot in the UK, ended off €27.20 at €606 amid widespread talk of broker downgrades.

The FTSE Eurotop 300 index rose 8.18 or 0.65 per cent to 1,258.89. See Euro Prices page.

Volkswagen shed 25 cents to €61.20 in spite of an upgrade to "outperformer" from "market performer" by WestLB. An upbeat trading statement from DaimlerChrysler at the merged group's first annual conference sent the shares up 77 cents to €80.55.

Mannesmann shared in a broad rally for the telecoms sector, adding €2.60 at €117 on a results statement.

Deutsche Telekom improved 83 cents to €37.75. Viag, a volatile market lately on acquisition uncertainty, came off €10.50 at €503.

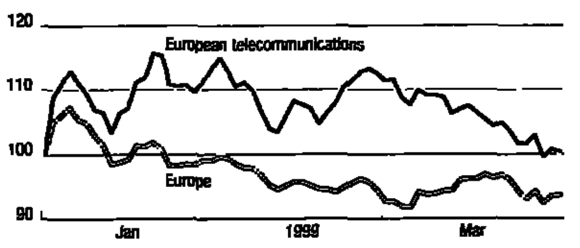
Continental shot up €23.50 on rumours that Hubertus von Gruenberg was to step down as chief executive. News of his resignation came at midsession and by the close the shares had lapsed back to €22.90, up 40 cents.

Fashion house Hugo Boss fell €30 to €1,220 after downgrades from Goldman Sachs and Merrill Lynch.

PARIS ended higher with some upside push from the options expiry. The CAC-40 added 55.9 or 1.4 per cent at 4,197.88.

Drugs group Sanofi was the session's top performer, jumping €8.60 to €156 on news of an increase in dividend. Investors also warmed to the group's upcoming merger with pharmaceuticals rival Synthelabo and the subsequent share split.

European telecommunications
FTSE indices (excluding UK, rebased)



Source: Datastream/ICV

Index heavyweight France Telecom also put in a strong performance, rising €3.85 to €74.90 after the European Commission approved a joint venture between DTFT, a France Telecom/Deutsche Telecom joint venture, and Energis of the UK.

Buying interest also received a boost from Olivetti's increased bid for Telecom Italia.

Food giant Eridania Beghin-Say, however, shed €3.80 to €137.20 after its Italian parent company Compart dismissed rumours about a possible takeover. The forecast of weak earnings in the first half of 1999 also weighed on stock.

Hotelier Accor, which had risen in anticipation of its good 1998 earnings, succumbed to profit-taking, falling €5.10 to €230.

Shares in Saint-Gobain fell steeply against the broad market trend, losing €5.60 to €147 on rumours that the company was on the acquisition trail. The group's name was yesterday linked with a possible takeover bid for UK glass rival, Pilkington.

Oils finished in negative territory in spite of a good day for international oil prices. Brent Blend, the North Sea marker price, went above $15 to the barrel at one stage. Elf Aquitaine lost more than 3 per cent, slipping €4.60 to €125.80.

AMSTERDAM traded narrowly, ending 2.53 higher at 536.93 on the AEX index.

Aegon improved 65 cents to €84.55 after the announcement that its Labouchere bank offshoot had abandoned plans to merge with broker AOT.

AOT tumbled 80 cents or 6.5 per cent to €11.50 and ING shed 15 cents to €51.05 on in-line results but a cautious outlook.

Publishers were active, VNU adding €1.25 at €36.10 and Elsevier 45 cents at €13.80. Early spring weather in Europe plus broker optimism helped to lift Heineken 70 cents to €46.70.

ZURICH moved swiftly ahead towards the close in response to Wall Street's firm opening and a strong dollar. The SMI index finished 106.1 higher at 7,130.2.

Among the day's main gainers, Nestlé put on SFr44 at SFr2,689 as BankSarasin upgraded the stock.

A SFr17 rise in Swisscom to SFr578 was in line with its international peer group. The group's chairman Tony Reis was reported as saying he was prepared to pay more for Germany's RWE/Vebatelecommunications venture Otelo than the SFr2.2bn from Mobilcom.

EMS-Chemie closed up SFr60 at SFr7,320 on continued market rumours that it was a possible merger partner for Alusuisse.

Novartis gained SFr48 to SFr2,401 in a technical rebound after recent losses.

Among financials, Zurich Allied shot up SFr37 to SFr946 as CSFB raised its earnings estimates and reiterated its strong buy recommendation on the stock. Swiss Re was another beneficiary of analysts' recommendations, rising SFr35 to SFr3,275.

MILAN called a halt to the day's trade on a bullish note, although volumes were thin. The Mibtel index rose 287 or 1.2 per cent to 25,002.

Telecoms remained at the centre of attention after Olivetti's admission of a blunder in the timing of the sale of 24.4m Telecom Italia shares. Olivetti finished 0.4 per cent higher at €2.90 and Telecom eased 0.3 per cent to €9.84. Tim picked up 1.9 per cent to €6.23.

Fiat jumped 4 per cent to €3.06 as the market gave its approval for the group's acquisition of a US chassis maker to combine with its robotics group Comau.

Banks were mixed. San Paulo-IMI soared 7 per cent to €15.03 after the bank said it expected a significant increase in 1999 profitability in spite of costs linked to its planned takeover of Banca di Roma.

Written and edited by Michael Morgan, Jeffrey Brown, Florian Gimbel and Peter Hall

Johannesburg drops again

SOUTH AFRICA

Shares in Johannesburg ended lower for the fourth day running with the all share index dipping a further 74.4 or 1.2 per cent at 6,348.5 on what brokers described as negative arbitrage trading ahead of the long Easter weekend.

Industrials shed 81.2 at 7,439.2 and golds came off 22.3 at 2,851.3.

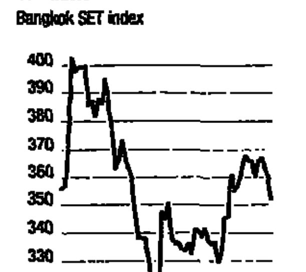
Minorco was among the heaviest traded stocks, adding 0.4 per cent at R106.20.

Tax cut snub hits Bangkok

ASIA PACIFIC

Investors in **BANGKOK** thumbed their noses at a $3.5bn package of tax cuts and government spending, sending shares steeply lower.

Thailand
Bangkok SET index



Source: Datastream/ICV

In thin trading conditions, with turnover barely topping Bt2bn, a bout of retail selling late in the session pushed the SET index down 7.75 or 2.2 per cent to 352.01.

Brokers said foreign and institutional investors had stayed out of markets elsewhere ahead of the Easter break and as a result it had been hard to gauge the Bangkok market's true reaction to the package.

Bangkok Bank was the day's most active stock, slipping Bt1.50 to Bt51.50. Krung Thai lost Bt0.75 at Bt17.25.

TOKYO dipped in response to a stream of gloomy economic data on the last day of the 1998 fiscal year, *writes Naoko Nakamae.*

The Nikkei 225 average fell 22.53 to finish at 15,836.59 after trading between 16,027.27 and 15,651.35. Other indices were little changed, with the weighted Nikkei 300 index losing 0.61 to 253.88, while the broader Topix index of first-sector stocks edged 2.02 lower to 1,267.22. Volume was modest at 480m shares, with 716 rising issues and 460 declining.

The Nikkei 225 close was 4.2 per cent down on its 1997 fiscal year-end, but the Topix index closed up 1.2 per cent year-on-year.

The construction sector was boosted by a succession of announcements from construction-related companies that their appeals for debt forgiveness had been successful. The sector rose 1.7 per cent during the day.

Shares in Haseko were heavily traded and they closed up 3.8 per cent or Y3 to Y83. Other companies that have had their debt forgiven also performed well, with Fujita rising 7.1 per cent or Y6 to Y91, Aoki climbing 6.9 per cent or Y5 to Y77, and Towa Real Estate gaining 6.4 per cent or Y6 to Y100.

The securities sector was also higher on the day, led by Kankaku Securities, the most heavily traded stock, which jumped 17.35 per cent or Y38 to Y257. But Nomura continued its slide after its profits warning last week, falling Y10 to Y1,240.

In Osaka, the OSE index ended the fiscal year up, gaining 109.61 to 17,029.17.

KUALA LUMPUR ended higher, with construction and infrastructure stocks leading the way. But many investors remained cautious ahead of the release of the central bank's annual report, leaving volumes thin.

The composite index gained 4.25 or 0.85 per cent to finish at 502.82.

The construction sector was buoyant on hopes that the government would lower interest rates in a bid to stimulate the economy. United Engineers rose 3 cents to M$1.72 and Ekran 4.5 cents to 71.5 cents. Technology Resources was one of the most active issues, rising 6 cents to M$1.32 after announcing smaller-than-expected 1998 losses.

SYDNEY was hit by a sell-off for resource stocks on the back of softening base metal prices. BHP gave up 55 cents or 3.9 per cent at A$13.45 and Rio Tinto lost 77 cents at A$22.03. The All Ordinaries index ended off 26.1 at 2,967.2.

BOMBAY closed off the day's highs as profit-taking emerged late in the session. The BSE-30 index finished 56.47 ahead at 3,739.96, off a peak of 3,761.97.

Software shares held steady as investors built positions ahead of this month's reporting season.

Shares of capital goods companies had a good day on news that the government was planning to restrict the import of second-hand capital goods.

Larson & Toubro jumped Rs15.30 to Rs234 and Wartsila Diesel was Rs22.30 higher at Rs301.60.